(Translation from the Italian original which remains the definitive version)

2018 ANNUAL REPORT

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BOARD OF DIRECTORS
Meeting of 26 March 2019

Directors' report

Dear shareholders,

The end of a year is a time when we can look back and reflect on what we have achieved and what has taken place during that year in order to face the coming year with confidence and renewed vigour.

Numerous events took place during 2018 and it would be difficult to list and mention them all here.

In 2018, Cassa di Risparmio di Fermo S.p.A. embraced and confirmed its traditional vicinity to its local communities and businesses. Households and businesses have always found the bank to be approachable, reliable and trustworthy and a worthy contributor to the local area's social and economic growth.

Testifying to its sense of belonging and its local roots, the bank has sponsored the restoration of the Santuario della Madonna dell'Ambro (Santuary of the Madonna dell'Ambro). This project was proposed and approved in 2017 as a very ambitious challenge due to a variety of interrelated factors.

The bank undertook this project to reaffirm its local bank role by providing tangible support to the people most hard hit by the 2016 earthquake which had a drastic effect on the southern part of the Marche region.

The message underpinning the restoration and the project's intention was that everyone would start again from the centre outwards.

The bank set itself another challenging objective to reiterate its firm intention to help the communities by fixing the date of completion of the works as the end of 2018 notwithstanding the incredible technical complexity of the restoration.

It achieved this objective within its set timeline and the Santuary housed the symbolic Christmas mass on Christmas Eve.

2018 was also an important year due to completion of the far-ranging organisational changes introduced in 2017 designed to create optimum conditions for commercial development in a more controlled environment with tight budgeting.

As provided for by the new service model, the private and business customers consultancy unit has gained a more important role, providing the necessary support and efficiently contributing to generating those essential recurring fees and commissions, as shown in the analysis of the income statement later on.

The new model has assisted the circulation and adoption of a management culture throughout the bank network, with staff aware of their responsibility for and engaged in achieving the qualitative and quantitative growth objectives.

The bank's performance was affected by the unfavourable market conditions and the decisions made by the bank when setting the business plan objectives.

Last year, we commented on the gap between the growth rates of Italy and the other EU countries with the former showing signs of a slowdown. The Marche region's economy was worse placed than the other areas in the country.

The August 2016 earthquake, which severely affected the southern part of the region, made it even more difficult for local businesses with some companies even forced to close. Figures for 2018 confirm these difficulties despite the praiseworthy initiatives taken, demonstrating the affected people's strong intention to overcome their difficulties.

The global economy's growth had already started to taper off by mid-2018 and production volumes dropped throughout the Eurozone.

ISTAT (the Italian National Institute of Statistics) formally announced the start of a recessionary phase in Italy.

Tensions exploded on the international stage in 2018 due to protectionist policies: the United States introduced protectionist trade policies affecting imports from China, with which complex negotiations are ongoing, and the European Union, which had already been affected by the introduction tariffs on aluminium and steel. This approach is likely to continue and worsen.

Additional tensions were triggered by the Chinese economy's ongoing slowdown, caused partly by the country's policies to contain private sector debt, and the political and economic difficulties of major emerging countries.

Another pending issue that affected 2018 and will certainly be a hot topic in early 2019 is Brexit. A no-deal exit could have a very negative fallout, even though its direct effects on trade, which would be serious for the UK, may be less serious for Italy and the other EU members.

Concerns are rife about the possible destabilising effects of a hard close Brexit on the financial markets which could be drastic.

Italy's production output was substantially stable in the first nine months of the year only to worsen steadily in the last quarter.

The contraction in production was flanked by a downturn in orders, as foreign markets lost momentum.

Internal demand in Italy was affected by the heightened uncertainty caused by the difficulties in defining the country's budget and the tough negotiations with the European Commission which were only resolved at year end.

The resulting higher risk premium on government bonds led to an increase in the returns on all maturities. The return on the 10-year Italian goverbment bonds increased from 2% at the end of 2017 to 2.77% at the end of 2018, peaking at 3.6% in November.

After the mid November high, the spread between the return on the 10-year Italian government bonds and the Bund narrowed by roughly 80 bps.

The risk premium on Italian government bonds continues to be high (253 bps at 31 December 2018) at roughly double the average for the first four months of 2017.

The Marche region's economy was again below par at year end. The local manufacturing industry and the production and commercial sectors did not perform as well as in the three months from July to September 2018.

Industrial production decreased by 0.9% in the last quarter of the year compared to the corresponding period of 2017 and commercial activities performed similarly: sales in Italy dropped 1.4% on the fourth quarter of 2017.

The Italian banking system saw considerable improvement in credit quality during the year with the loan default rate decreasing to 1.7%.

During the first nine months of the year, non-performing exposures ("NPE") decreased from €259 billion to €216 billion, before impairment. Net NPE were down 53% at year end compared to 31 December 2017 as a result of the de-risking process performed by the Italian banks to eliminate the worst quality NPE.

The banks' equity ratios improved.

The bank's ratios were substantially in line with the sector average.

Direct funding continues to be extremely positive, confirming customers' trust in the bank as a safe resort for their savings in a difficult regional banking context.

Indirect funding grew boosted by tailored commercial policies, especially the managed funds and insurance segments, showing customers' appreciation of the products on offer and the distribution network's excellent service.

The lending business confirmed the previously-achieved targets. There was a drop in gross and net NPE, due to continuation of the healthy trend implemented in 2017.

The bank strengthened its credit risk controls, by monitoring exposures to prevent critical situations arising, by introducing a commercial policy to split up the risk, promoting especially house purchase loans, and by adopting an extremely prudent approach to its lending to businesses, using specific ceilings.

With introduction of IFRS 9, the bank adopted a business model within which financial assets are classified in categories depending on their intended use. It concurrently adjusted the options for changes in the individual categories.

The bank was again required to make sizeable non-recurring contributions to the funds set up to assist debt-ridden banks.

Despite the continued generalised and local economic difficulties, with the sovereign debt crisis and instable financial markets affecting the bank's income statement, the onerous contributions to the Resolution Funds and the effect of complying with numerous new rules, Carifermo made a profit of more than €1.57 million for the year.

International situation

During the year, the international macroeconomic context gradually lost the momentum seen in 2017 characterised by synchronised global recovery with growth recorded by all the main economies in a trend that seemed set to continue.

The main advanced economies continued to flourish although the signs of a generalised slowdown multiplied. Several risk factors threatened the international economy's growth: the repercussions of a negative outcome to the negotiations about the trade war between the US and China, how the discussions to manage the United Kingdom's exit from the EU would go and the heightened financial tensions in some emerging economies.

Over the last 12 months, international trade grew at an average pace of 3.8%, down 0.9% on 2017. In just November alone, the monthly rate decreased by 1.7% compared to the previous month, offsetting the positive trend seen in October.

Again in November 2018, industrial production decreased by 0.2% on the previous month. The average growth rate of the entire year was 3.2%, just under the 2017 rate.

The worsened financial market conditions seen in December were accompanied by economic and political instability in both the advanced and emerging economies as the Chinese economy and its prospects significantly impact the outlook for global growth.

China's real GDP growth rate slowed down slightly in the fourth quarter compared to the previous three months (+6.4% compared to +6.5%). Exports in particular were adversely affected by the US' protectionist policies.

In January 2019, the Chinese manufacturing PMI index again disappointed the market with growth under the expansion threshold at 48.3 for the second consecutive time (49.7 in December). These are the lowest levels of the last few years.

The Chinese central bank has recently approved another reduction in the banks' minimum reserve requirements and injected RMB800 billion into the system to offset the risks of a strongly contraction in the economy.

The risks of deceleration of the global economy have been considered by the central banks on both sides of the Atlantic in their December monetary policy decisions. The ECB governing council confirmed that it would end the net asset purchases under the APP but did not change its main interest rate. It also announced that it would promptly adjust all its instruments to ensure that inflation continues to move towards its inflation target in a sustained manner.

During its last meeting of 2018, the Federal Open Market Committee (FOMC) approved the expected rise of 25 bps in the interest rates on fed funds (between 2.25% and 2.5%) but this will be revised downwards depending on how the US economy performs.

While the labour market held its ground in the US with the unemployment rate again at historical lows below 4%, negative signs multiplied in December.

The consumer confidence index has fallen to a historic low since July. The shutdown of more than 25% of the federal administrative services in place since 22 December caused by political differences between President Trump and the majority democratic congress has fuelled uncertainty about the US' economic growth.

The Euro/US dollar exchange rate appreciated slightly in the second half of December for a monthly average of USD1.138, which was more stable than the November trend.

The Eurozone's economy continues to be weak.

Estimates for its fourth quarter included real GDP growth of 0.2%, as expected, stable compared to the summer months. This aggregated rate incorporates the downturn seen in Italy (-0.2%) and the positive performances of France (+0.3%) and Spain (+0.7%).

Eurostat's preliminary estimates include another deceleration in the inflation rate in December with a +1.6% year-on-year increase and +1.1% for core inflation.

In October, industrial production picked up its pace slightly (+0.2%, -0.6% on September). The German and French production figures were very negative, down 1.9% and 1.3%, respectively.

The labour market does not yet seem to have picked up on the economic deceleration. In November, the Eurozone's unemployment rate returned to the minimum value of October 2008 at 7.9% compared to 9.1% in 2017.

Overall, the Eurozone felt the effects of the worsened international economic climate and especially the curb in investments. The German economy was especially hit by this latter trend as it is highly dependent on international demand for investment goods.

In its January meeting, the ECT's governing council moved the Eurozone's risks from "balanced" to "downside" due to the more uncertain climate caused by the growing risk of a negative outcome for the Brexit negotiations and specific country risks, like the drop in car manufacturing in Germany.

However, the ECB assessed the risk of recession as low as the financial conditions are still very accommodative and the labour market continues to improve, with a follow-on effect on labour costs and inflation.

The Eurozone's economic slowdown was confirmed by the downwards revision of the growth forecasts for 2019 recently published by the European Commission: 1.3% rather than the previous 1.9%.

FINANCIAL MARKET TRENDS

The long-term rates of the main advanced economies fell again after the increase seen at the start of October due to the heightened uncertainty about the global economy's growth. Share prices fell rapidly as a result of the highly volatile scenario.

The risk premiums increased slightly in the Eurozone.

During the fourth quarter of the year, the returns on 10-year government bonds decreased in all the main economies. In addition to the global reasons for this, there were also the expectations about a slower normalisation of the monetary policy in the US while concerns about the Brexit outcome affected returns in the United Kingdom.

The rates of return on 10-year German bunds decreased by 23 bps in the last quarter of 2018 to 0.24%. The spread between the return on the 10-year government bonds and the corresponding German bund widened in Ireland and Spain by about 20 bps and in Belgium, France and Portugal by around 10 bps.

In Italy, the spread narrowed by 65 bps in December compared to the high of mid November, mainly thanks to the agreement reached by the Italian government with the European Commission on the country's deficit and its impact on the high public debt.

Starting from the end of the third quarter, share prices fell by an average approximate 11% in all the main advanced economies. This reduction was particularly evident in the US, reflecting the downwards revision of the outlook for global growth.

ITALY

The negative trend seen in the third quarter for GDP worsened in the last three months of the year with a deceleration of -0.9% on an annualised quarterly basis.

The most recent data available about GDP for the third quarter of the year show that internal demand, net of stocks, contributed -0.3% (-0.05% household and private social institutions' consumption, -0.2% gross capital expenditure, while public administrative spending was substantially the same).

With respect to foreign trade, both exports and imports of goods decreased in November (-0.4% and -2.2%, respectively). The reduction in exports was a result of smaller sales to European markets while those to non-EU countries increased slightly (+0.6%).

The preliminary figures for December show that sales to non-EU countries decreased by 5.6%. This was true of nearly all the main industrial sectors, especially intermediate goods (-2.3%) and consumables (-1.6%) while sales of essential goods (+2.3%) and energy products (+2.0%) increased.

The OECD's leading indicator decreased in December to 99.3 compared to the previous month while it was 100.9 at the end of 2017.

The construction sector did not perform well. Building permits, which are usually issued before construction work starts, decreased for both the residential and non-residential sectors in the second quarter of the year. The production figures confirm this trend: the seasonally-adjusted production index for the construction sector for the months from September to November 2018 was lower than that of the previous three months (-0.7%).

In December, the Italian labour market's performance was substantially stable with a slight improvement in the unemployment rate. The modest increase in the employment rate at 58.8% (+0.1% on the previous quarter) was mostly due to the higher number of workers with fixed-term contracts, which more than offset the reduction in those with open-term contracts.

The unemployment rate decreased at the end of the year to 10.3%.

The effects of the freefall in international oil prices towards the end of the year quickly affected consumer prices. Preliminary estimates show that the consumer price index (CPI) showed a year-on-year increase of 1.1% in December, which was 0.5% lower than in November.

The weak phase of the economic cycle and the effects of the downturn in import prices led to low-inflation intensity. Core inflation was 0.6%. Service prices also decreased, discounting the effects of lower costs for transport, while the deflationary phase continued for non-food and non-energy goods.

The Italian inflation rate continues to be below that of the Eurozone and the gap has widened by 0.5%.

In December, the consumer confidence index decreased again for all components: expectations about the future were revised sharply downwards as were those about unemployment. Business confidence also worsened in nearly all sectors in December as well.

The outlook for orders and finished goods stocks worsened for manufacturing companies. The leading indicator decreased again, creating the assumption that the Italian economy's current weak cycle is set to continue.

MARCHE REGION

The local manufacturing sector ended the year with negative growth and both its production and commercial activities underperforming the results achieved in the third quarter of the year.

The quarterly survey performed by the "Giuseppe Guzzini" study group of the Marche branch of Confindustria (the General Confederation of Italian Industry) showed that the region's industrial output in the last quarter of the year decreased by 0.9% on the same three months of 2017, which was completely different to the trend seen at national level.

All the sectors included in the survey performed negatively except for the food and wood and furniture sectors.

Therefore, the fourth quarter figure confirms the economic slowdown and a weaker local production trend compared to the national trend. The initial signs of the economic deceleration seen before the summer break were confirmed in the figures for the third quarter of the year and again by the weak growth seen in the last three months.

The outlook for the first half of 2019 is affected by the internal market's subdued economic performance, which has become negative again after gaining ground for a few quarters, and the loss of momentum in the foreign market.

Moreover, the survey identified other worrying signs. The export business, which has always been the region's driving force, is suffering, apart from some exceptions. In addition, the operators continue to revise downwards their outlook for the international economy and political scenario.

Based on the information they provided, the share of operators with stationary or declining production remains high (65% compared to 62% for the third quarter of 2018) while companies that have managed to increase their production have shrunk (35% compared to 38% in the last survey).

Total commercial activities decreased slightly in the last quarter of the year: sales in real terms were down 0.3% compared to the corresponding period of 2017, with a negative performance seen in the domestic market, down 1.4%, and a positive one in the foreign market, up 1%.

All the business sectors, except for the mechanical and footwear sectors, recorded high sales volumes on the foreign markets, although their performances sometimes differed greatly.

The average employment figures for the last quarter of the year decreased slightly (-0.3%) on the previous quarter. The government-sponsored lay-off scheme hours also decreased in the same period by 57.7% compared to the corresponding period of 2017 from roughly 6.8 million to 2.9 million. An analysis of the figures by business sector shows that the decrease is due to the generalised reduction in authorised hours.

Based on the regional branch of Confindustria's figures, the local footwear sector did not perform well in 2018, with a contraction in both production and commercial activities.

The survey showed that production dropped 3.7% in the last quarter of the year compared to the corresponding period of 2017, in line with the trend for the entire country (-7.4%) although less intense.

The weak economic climate is confirmed by the information collected by the interviewees: the number of companies that saw an improvement in their business decreased (44% compared to 48% in the previous survey) while the number of operators whose businesses declined increased (41% compared to 38% in the third quarter of 2018).

Total sales decreased by 3.9% on the fourth quarter of 2017.

Footwear exports from the Fermo district shrank by 4.1% in the first quarter of 2018 and this trend continued slowly as can be seen in the third quarter when exports lost 8.4% compared to the same period of 2017.

The trade balance was weak with a downturn recorded by operators with growing business volumes both on the domestic (38% compared to 44% in the previous survey) and foreign (40% compared to 46%) markets.

Sales prices grew on the domestic and foreign markets (1.8% and 2.4%, respectively). The cost of raw materials also increased but at a more modest pace.

According to the operators included in the survey, commercial activities will decrease in both the domestic and foreign markets in the next few months.

Loans granted by banks to businesses and households in the region did not significantly change. At the end of November, approximately €34.3 billion had been disbursed, equal to an increase of 0.2% on an annual basis.

Loans to businesses decreased by 0.2% while those to households increased by 1.6%.

The ongoing and far-reaching economic crisis has affected the large amount of NPE held by the regional banks. At 30 November 2018, gross NPE made up 10.6% of the total loans disbursed despite the numerous transfers of exposures in previous years.

THE ITALIAN BANKING SYSTEM

At year end, loans to non-financial companies showed slow growth at 1.3% year-on-year.

Loans to households were steady at 2.7% although their disbursements slowed abruptly towards the end of the year and demand was negative again at the start of 2019.

In January 2019, CRIF figures show a further drop in applications for new loans and loan transfers (-6.4% on a year-on-year basis). This suggests that the slowdown seen at the end of 2018 will continue until at least March 2019.

Overall, loans to the private sector decreased by 2% at year end, compared to one year earlier, which was the smallest decrease of the year.

Net of non-performing loans, loans confirmed the improvement seen since September 2018 after more than six negative years and increased slightly at year end by 0.2% compared to the previous year end.

Loans to households grew steadily throughout the year and only slowed slightly towards the end of the year at 2.7% year-on-year in the last two months compared to the annual average of 2.8%. Consumer credit performed particularly well.

Specifically, consumer credit granted by banks continued to show highly monthly volumes of new transactions, with two-digit growth at +12% year-on-year after the +10% in November. This credit component grew steadily at +8.5% at the reporting date compared to the previous year end, which was exactly in line with the average performance for the year.

After the upturn in loans disbursed during the summer months and until the peak in October, they decreased in the last two months of the year. In December, loan disbursements increased slightly by 1.5% after the 2% decrease in November, which followed the 14.7% jump in October.

The rise in deposits also stopped in December 2018, with an increase of 2.6% on a year-on-year basis. This performance is tied to the current accounts, which lost ground steadily during the year.

Overall, funding from customers increased modestly at year end (+0.2%). This trend was confirmed in January 2019 with an increase of 0.3% according to the ABI (Italian Bankers Association) estimates.

The most recent figures about total securities in custody with Italian banks either under management or held directly by customers amount to approximately €1,165.7 billion at year end, down roughly €7 billion on 31 December 2017 (-0.6%).

Assets under management in the third quarter of the year approximated €122 billion, showing a year-on-year increase of 1.6%.

Individual asset portfolios under management by banks, stock brokerage companies and OEICs in Italy contained assets of approximately €842.5 billion, which was an annual increase of 0.4%.

At year end, assets of Italian and foreign open-ended funds decreased by €19 billion to around €950 billion, including compared to November.

Specifically, equity funds decreased by €12 billion, bond funds by €43 billion, balanced funds by €1 billion, flexible funds by €6 billion and hedge funds by €0.5 billion while monetary funds increased by €2 billion at year end.

Net funding for the entire year amounted to €71 million even though the net funding from open ended funds was a negative outflow €1.6 billion at year end, in addition to the outflow of €3.4 billion in November.

During the year, the new life insurance business contracted slightly compared to 2017, mainly due to the smaller number of class III policies agreed.

The contribution of multi-class products was fundamental as they assisted the relaunch of the traditional policies since the start of the year and the containment of the contraction in products with a higher financial content. With respect to the number of policies signed, the hybrid products were significantly better met by customers than the stand-alone products.

The bank's operations

The bank's operations were significantly affected by the completion of the far-reaching reorganisation of both the sales network and the head office, started in 2017 to boost their quality and production output as well as to streamline the bank's commercial activities.

Over the last few years, the banks' (including Carifermo) strong dependence on the results of their financing activities, the very positive results of which were due to exceptionally accommodating monetary policies and the slow but unstoppable decline in net interest income, have shown the urgent need to strengthen recurring sources of income to stabilise their results, as far as possible, as an essential new source.

The bank's related project (described in detail in the 2018 Annual Report) has entailed the renovation of its previous distribution model to transform the main branches (hubs) by giving them a greater assistance role to the smaller outlying branches (spokes), which were reorganised and developed.

The bank's key objective was to maintain and even strengthen its local roots with a widespread network that promotes the bank's mission as the key local bank for the region.

The new distribution model entails a more efficient and flexible organisational structure, poised to fully exploit the various distribution channels and opportunities offered by technological innovation, although the physical network will continue to be promoted.

The hub branches will gain organisational and decision-making independence and this will benefit the spoke branches.

The spoke branches continue to operate independently while reporting to their hub branch. They do not have all the traditional staff members but resort to specialists made available by the hub when necessary, enabling them to develop the transactions they are specialised in more efficiently.

The figures that will be presented in more detail later in this report show that the bank's renewed offering capacity and instruments more tailored to customers' needs that are upgraded constantly to reflect market opportunities have been very tactical in generating profits.

In fact, it explains the increase in net funding from managed funds and insurance policies, which generated higher revenue for both 2018 and the coming years.

The objective behind the strong drive to provide loans was to achieve more stable cash inflows, allow higher risk splitting, safer lending and greater customer retention.

During the year, the bank complied with the extensive legislative innovations which entailed a costly ongoing internal compliance exercise.

Partly to mitigate the effects of IFRS 9 FTA, the bank stepped up its analysis of credit risk by introducing a project to implement and improve risk monitoring and to have a more prudent approach to new loan applications.

Accordingly, it planned significant organisational changes to work in a more organised manner, to monitor loans from their start to identify any possible difficulties a customer may have and thus intervene efficiently and in the most appropriate way. This included both increasing the number of employees involved in the essential monitoring phase and involving the branch network in any problematic issues.

In 2018, the bank drew up a NPE plan in line with the guidelines for the "less significant" banks to eliminate the problem exposures accumulated during the financial crisis. It has designed a wide range of possible methods for the recovery and reduction of the NPE which will require a large commitment on the bank's part over the coming years.

The plan measures include the transfer of bad exposures. Therefore, during the year, the bank transferred a portfolio of bad exposures without recourse as part of a multi originator transaction. The project was developed using a study and valuation of the bad exposures that were the most suitable for the transfer, including by considering the specific recovery procedure.

It then performed a due diligence of all the in-scope bad exposures to not only assemble and enter into the computer all the information about the bad exposures' status but also to identify and present all the related useful information to the buyers to better present the portfolio to be transferred.

The bank completed this project in 2019 with the receipt of an offer from a major Italian operator. However, after an in-depth analysis, the board of directors decided not to accept the offer as it deemed that the consideration offered was not acceptable.

The board of directors also concurrently confirmed its intention to continue with its primary objective of reducing the NPE, including through their transfer during 2019.

In accordance with IFRS 9, the board of directors approved a business model for the management of financial instruments. The approved business model identifies the categories of financial assets and defines the purposes for which they are held and the delegations for their management entrusted to the relevant employees in line with their roles assigned by the internal service rules.

Delegations of powers are linked to a new important role assigned to the Risk Governance Unit, i.e., the strict and timely supervision coordinated with the bank's risk appetite framework.

The complexity of the bank's operations, which is partly due to the unstable legislative framework and the lack of a clear interpretation of the principle of proportionality, requires it to have a very qualified organisational structure, production processes and conduct in line with the relevant legislation, respectful of customers' interest and consistent with its business plan.

Specifically, the bank focused on introducing information systems designed to comply with the ongoing changes in the sector regulations. The bank also continued to carry out actions to consolidate and improve its performance.

On 19 June 2017, Legislative decree no. 90 of 25 May 2017 was published in the Official Journal transposing Directive (EU) no. 2015/849 (the "Fourth AML Directive") into Italian law, amending the Italian legislation on anti-money laundering and the financing of terrorism. The bank started a project to fully comply with this Legislative decree.

During the year, the bank decided to reinforce the internal unit which performs this specific check by implementing the following activities:

a. introduction of enhanced due diligence procedures for transactions performed by customers that may follow cross-border capital movements;

b. communication to the branches of the new and wider definition of politically exposed persons;

c. completion of AML training for all employees using the ABI e-Learning courses (basic AML, due diligences, customer monitoring and communication of suspicious transactions, combating the financing of international terrorism and the proliferation of weapons of mass destruction) and classroom courses with external lecturers for all personnel at the branches and head office.

In 2018, the bank continued to outsource the non-core activities that contributed significantly to the cost-cutting project, including by reducing the number of employees.

It also carried out non-recurring maintenance work to align its structures with its new requirements and in accordance with the new concept that characterised the work already performed in 2017.

Specifically, it significantly renovated the Fermo offices using the new office layout and a design that cunningly included innovative and extremely functional elements while enhancing the architectural features already present in the bank's historic premises. Great attention was paid to making the offices welcoming, especially for the consultancy services.

The bank also fitted out the new Fermo - Campiglione branch, again according to the new layout. This branch was opened at the start of 2019 and its furbishing was necessary given the current and future development of that area of Fermo.

Another important project was the furbishing of new premises in the Marina Palmense area of Fermo which will house the bank's first fully automated branch. This is part of the plan to

restructure and streamline the branches and entailed the closure of the bank's "traditional" branch with a high tech branch that can mostly operate without personnel.

Cyber and physical security was a key issue again in 2018 and many projects were carried out to improve security. This involved many branches in order to increase the average level of passive security as well following two criminal attacks. The bank also introduced a project to replace its alarm transmission systems and the ATMs with more advanced and secure models.

The cyber security implementation measures included the involvement of a leading specialist to assist the bank's internal specialist unit. After a joint initial assessment, they identified the need to introduce a Security Information and Event Management (SIEM) system, which collects all the events identified in the bank's computers (be they either central servers or desktop computers) in one single database as well as security measures for the bank's information system. The SIEM system monitors and manages the events in real time and also links and combines them. It processes data for incident response, compliance and forensic analysis requirements.

The SIEM system is essential to comply with the fundamental accountability principle of the GDPR, i.e., the ability to detect actions in systems that can be used to confirm data protection to the data protection authorities if necessary.

The bank's treasury and cash service provided to local bodies continued to be very intense and profitable. During the year, it reinforced its traditional role in this sector by acquiring three new treasury service mandates confirming its leadership role. It intends to encourage and strengthen its partnerships with local bodies to exploit all possible and existing synergies to the advantage of the local communities.

At year end, the bank managed 26 treasury services compared to 23 at the end of 2017, as well as various cash services, including two important schools in Fermo.

The annexes to the financial statements include a list of the bodies to which the bank provides treasury and/or cash services.

Organisation and workforce

During the year, the Marina Palmense branch was closed and replaced by the highly automated branch (described earlier). The former branch's customers are now served by the branches of the Porto San Giorgio hub.

At 31 December 2018, the bank's 59 branches were located in seven provinces and three regions as shown in the following table:

REGION	PROVINCE	No. of branches at 31/12/2018
Marche	Fermo	27
Marche	Ascoli Piceno	11
Marche	Macerata	13
Marche	Ancona	2
Abruzzo	Teramo	2
Abruzzo	Pescara	1
Lazio	Rome	3

In addition to that described about the renovation of the Fermo and Campiglione branches, the bank continued its work for the ongoing improvement and enhancement of its properties, both owned and leased, in order to primarily improve their working and comply promptly with the laws about occupational safety.

The bank's owned property used for operations has a surface of roughly 25,879 square metres while its leased property has a total surface of roughly 6,986 square metres.

The bank also owns properties which it leases for a total surface of 6,660 square metres.

At year end, the bank had a total workforce of 377 employees, excluding the cleaner, ten less than at the end of 2017, as follows:

	31/12/2018	31/12/2017	31/12/2016
Managers:	1	2	2
Junior managers (3rd and 4th level):	41	43	42
Junior managers (1st and 2nd level):	61	63	62
3nd professional area:	272	276	270
2nd professional area:	2	3	3
Total	**377**	**387**	**378**
Cleaning staff	*1*	*1*	*1*

In 2018, 24 employees left the bank while 14 people joined it.

The following table summarises changes in the workforce during the year:

	31/12/2018	2018 departures	2018 entries	Promotions	31/12/2017
Managers	1	1	0	0	2
Junior managers (3rd and 4th level)	41	6	1	3	43
Junior managers (1st and 2nd level)	61	4	1	1	63
3rd professional area	272	12	12	-4	276
2nd professional area	2	1	0	0	3
Total	**377**	**24**	**14**	0	**387**

At year end, the bank had 27 employees with part-time contracts, compared to 30 at the end of 2017. It had 16 employees with fixed-term contracts.

The workforce includes 265 employees (70.3%) at the branches and the other 119 (29.7%) at the head office. This allocation provides an efficient contribution to containing overheads given that the bank is an independent entity and does not belong to a banking group.

The employees' involvement in pursuing the bank's objectives, also ensured through ongoing training, is a key HR target as the bank is convinced of their central role.

Training activities involved many professional employees about all relevant issues.

Specific top quality training courses were held for staff with the direct participation of leading training companies. The courses were mainly provided to employees selling financial products, analysts and credit department staff. Managerial courses were held for junior managers and all those employees that are in charge of HR.

Great importance was thus given to training with most employees participating at internal and external courses. As in the past, courses were held about finance issues, lending and insurance.

The aims were twofold:

1. to build up the specific skills of personnel holding particularly important positions, also considering the legislative discontinuities which require ongoing refresher courses;
2. to provide professional training about new products and services, especially those of a financial nature, and with a special focus on anti-money laundering.

Professional training courses were also held about the new distribution model for the employees who will provide customers with increasingly distinctive and qualified services.

The bank also availed of the e-learning platforms for on-line courses of ARCA, used for insurance sector training, AD Global Solution for AML training and ABI for data protection courses which allows employees to consult course materials and monitor scheduled training activities without having to be physically present.

For some time now, its organisational policies have focused on developing the multi-channel tool as the way to reorganise work at the branches in a labour-saving manner.

As a result of these policies, the number of transactions performed using channels other than the sales network has continued to grow, both as a percentage and amount.

The main players are those procedures that use the network to distribute banking services, such as the home banking service, which led to customers trading securities “on line” equal to 80.1% of the total compared to 74.3% at 31 December 2017.

The internet banking service, which includes on-line trading, is well met by customers and 25,429 customers had activated the service at year end compared to 22,950 at the end of 2017 (+10.8%).

The bank also provides corporate banking services to businesses alongside its internet banking service, designed for individuals. At 31 December 2018, 5,688 businesses had registered with this service compared to 5,440 at the end of 2017 (+4.5%).

The ATM service has 1,918 machines compared to 1,909 at the end of 2017 with transaction volumes up 5.6% on an annual basis.

Cash deposits made by customers using the next generation ATMs mostly installed at the h24 branches grew steadily during the year. They may be summarised as follows:

2018 ATM DEPOSITS				
	No. of transactions		Amount (€'000)	
	2018	2017	2018	2017
Cash	77,856	64,933	138,832	115,727
Cheques	31,216	28,366	40,210	35,201

Deposits increased by 18.6% to €179 million compared to €150.9 million in 2017.

Internal controls

The current system of internal controls is set up in such a way as to ensure appropriate and careful monitoring of the bank's activities and, especially, those subject to the most significant implicit risks.

The controls involve the board of directors, the board of statutory auditors, senior management and all personnel, based on their roles and responsibilities.

Specifically, responsibility for the internal controls lies solely with the board of directors, whose duty it is accordingly to:

- establish guidelines, strategies and risk management policies;
- approve the bank's organisational structure, ensuring duties and responsibilities are allocated clearly and appropriately;
- regularly check the organisational structure's adequacy and effective working;

- ensure that the control units are sufficiently independent of the other units and have the appropriate resources to correctly carry out their duties.

The board of directors also regularly assesses the internal control's compliance with the bank's business model and their overall functionality, effectiveness and efficiency. It adopts any remedial actions promptly.

The internal controls cover all the bank's operations and are an integral part thereof. They include the following types of control:

- First level controls
  - line controls, that can be carried out by the production units themselves, included in procedures or performed as part of back office activities;
- Second level controls
  - these are carried out by units that define the risk measurement methodologies, check compliance with the limits set by the board of directors on an ongoing basis and compliance with the assigned risk objectives; second level controls also include compliance controls, aimed at ensuring efficient risk management so as to avoid judicial or administrative sanctions, large financial losses or reputation damages due to the violation of external (laws and regulations) or internal rules;
- Third level controls (internal audit)
  - their objective is to check the correctness of the bank's operations and adequacy of its risk management procedures.

Specifically, third level controls are carried out by the Internal Audit Unit, which reports directly to the strategic supervisory body: this ensures its independence of the other operating units.

When urged to do so by the Internal Audit Unit, senior management takes steps to eliminate any weaknesses, assisted by the relevant office, due to the non-definition and/or introduction of line or second level controls, the related adequacy or inadequacy of organisational processes and any other aspects that could compromise the working of the internal controls as a whole or risk management.

Given the bank's size and the principle of proportionality, the Risk Governance Office is responsible for monitoring and measuring risks, including the risk of non-compliance with the law. This office comprises the Risk Management unit, the Compliance Unit and the AML Unit. Starting from 1 November 2018 and in order to better comply with the new data protection regulation (Regulation (EU) 2016/679), the bank set up a Compliance and Privacy Office, to which the Compliance Unit was transferred and which includes the Data Protection Officer. The Risk Governance Office continues to comprise the Risk Management and AML Units.

The second level control offices are sufficiently independent in order to strengthen their segregation from both the operating and internal audit functions.

Risk management

The Risk Management Unit continued its work during the year aimed at measuring and controlling the different types of risk in line with the instructions issued by the board of directors and the supervisory authorities.

Accordingly, it monitors the following risks:

Market risk

Ruling regulations require that the VaR (Value at Risk) method be used to measure market risk. It estimates the maximum potential loss considering market values for a set period of time and a set confidence level at normal market conditions.

The VaR method, developed for management purposes with a special application designed by Promoeteia, based on the variance-covariance parameter model, calculates the maximum potential loss at a confidence level of 99% of the banking book over a period of 10 days. It measures the variability of the banking book's value using risk factors, being interest rates, exchange rates and market indexes.

Liquidity risk

Liquidity risk is measured using an internal model and data provided by the ERMAS application. The board of directors' model is based on the cumulative imbalance between assets and liabilities split by maturity. The bank also regularly monitors the liquidity coverage ratio (LCR), the net stable funding ratio (NSFR) and the additional liquidity monitoring metrics (ALMM).

Interest rate risk

The model used to measure the banking book's exposure to interest rate risk includes calculation of the risk indicator considering the maturity or repricing of assets and liabilities as per the supervisory authorities' instructions. It gives the bank's net weighted position compared to its own funds. The ERMAS application, provided by the IT outsourcer thanks to the partnership with Prometeia, is again used together with the A2 disclosure base of the accounts matrix.

Credit risk

Systematic application of the CPC (Credit Position Control) model, introduced in 2006, has improved the efficiency levels of monitoring performing loans both at branch and head office level. Reports are produced regularly on the largest irregularities, broken down by customer type.

The credit risk analysis is also based on a counterparty internal rating system. The adopted procedure (S.A.Ra. - automatic rating system) classifies customers by credit risk level and estimates the probability of default (PD) based on the counterparty's performance trends, qualitative information obtained in questionnaires and, for companies, assessments of financial statements on a statistical basis and using system analyses.

The Risk Management Unit regularly checks the expected losses on the bank's loans portfolio using the S.A.Ra. application's internal rating system.

The S.A.Ra. rating system divides customers into three main segments (Corporate, SME retail and Retail) and classifies counterparties using a scale of ten classes, consisting of nine for performing counterparties (AAA, AA, A, BBB, BB, B CCC, CC and C) and one for defaulting counterparties (D). The system has two different methods to measure probability of default (PD), one for businesses and one for individuals.

The internal rating system has also been included in the loan disbursement process, amending the related "delegated powers". Specifically, when positions are rated as CCC or below, the loan approval powers are automatically transferred to general management and are exercised by no lower than the head of the Loans Office.

The rating is not used for risk weighing supervisory purposes.

Single-name and geo-business segment concentration risk

The bank's exposure to business and geographical concentration risk is assessed every three months using Bank of Italy's regulatory models.

Recovery plan

The Italian central bank set out instructions to implement Title IV, Chapter 01-I of the Consolidated Banking Act and Title IV, Chapter I-bis of the Consolidated Finance Act with its measure of 16 February 2017. The two Acts establish the banks' requirement to draw up recovery plans as per Directive no. 2014/59/EU (the Banking Recovery and Resolution Directive - BRRD). Bank of Italy's measure provides that banks identified as "less significant institutions" may adhere to simplified recovery plan obligations and sets out the minimum content that these banks shall include in their plans.

The board of directors examined the Italian central bank's measure and content in its meeting of 1 March 2017. The bank acknowledges the importance of preparing a recovery plan to be independently implemented should its situation deteriorate with the first trigger signs in order not to reach the stage of irreversibility when the regulator would have to either wind up the bank or put it in compulsory liquidation. Adoption of an effective recovery plan is a useful tool to prevent a crisis situation and essential for the bank's governance.

As required by the measure, the board of directors approved the bank's recovery plan in its meeting of 30 May 2017. This plan is based on the EBA's guidance and the minimum list of qualitative and quantitative indicators for recovery plans (EBA/GL/2015/02) and the scenarios to be used in the plans (EBA/GL/2014/06) that the Italian central bank has complied with.

The head of the Administration, Control and Finance Unit reviews and updates the recovery plan every two years, assisted by the Risk Management Unit. The Internal Audit Unit checks each amendment which is also approved by the Management Body (the managing director) and the Strategic Function Body.

The bank sends the amended recovery plan to Bank of Italy by 30 April every second year.

Operational plan for managing NPE

In January 2018, Bank of Italy issued the "Guidance on the management of non-performing loans for Italy's less significant institutions". These guidelines reflect the ECB's intention to ensure more proactive management of NPE by all the banks and set out the objectives, which substantially comply with the supervisory approach adopted to date by Bank of Italy.

As required by the guidance, the board of directors approved the document "Cassa di Risparmio di Fermo's strategy for managing NPE". This strategy is firstly aimed at its optimisation, by maximising the present value of recoveries. The bank defined its strategy on the basis of an analysis of its operating ability, the market conditions and the characteristics of its NPE portfolio. The NPE operational plan is an integral part of the strategy and was revised in October 2018 to reflect the figures for the first half of the year. As required by Bank of Italy, the bank updates the plan once a year. Both the strategy and the plan are revised annually to include recommendations made by the managing director, the head of the Administration, Control and Finance Unit and the Risk Management Unit, assisted by the other competent units. The Internal Audit Unit checks each amendment which is approved by the Strategic Supervision Body.

Legislative decree no. 231 of 21 November 2007 - Prevention of the use of the financial system for the purpose of money laundering and terrorist financing

In June 2017, Legislative decree no. 90/2017 transposed Directive (EU) no. 2015/849 into Italian law on the prevention of the use of the financial system for the purposes of money laundering and terrorist financing. It also implemented the amendment to Directives nos. 2005/60/EC and 2006/70/EC and implemented Regulation (EU) no. 2015/847 on the information accompanying transfers of funds which repeals Regulation (EC) no. 1781/2006 (the Fourth Directive). The bank is updating its processes and procedures, assisted by its IT outsourcer, to comply with these changes. The mandatory training was provided through on-line courses to optimise both the timing and related costs.

The risk-based approach (RBA) establishes that the degree and scope of the customer due diligence requirements vary depending on the degree of risk of money laundering and terrorist financing. Customers are classified into four risk categories and subjected to different levels of due diligence. Certain customers are considered to be more exposed to the risk of money laundering and/or terrorist financing due to the nature of their business activities and/or business sector, their characteristics and/or those of their owners and/or control chain. The various degrees of due diligence include escalation of the authorisation powers and/or stricter monitoring and controls depending on the customer.

In line with the bank's new service model, which introduced new distribution network positions, the board of directors adopted an AML regulation, which it updates regularly and which sets out responsibilities, duties and operating methods to manage risk. This regulation can be easily accessed by all personnel. It defines the responsibilities, duties and operating methods for the risk's management and organises the controls in line with the size, organisation, characteristics and complexity of the bank's operations.

In April 2018, it completed the self-assessment of money laundering and terrorist financing risks required by Bank of Italy in its communication no. 115097/15 of 21 October 2015. This assessment requires banks to identify, assess and understand the money laundering and

terrorist financing risks to which they are exposed in order to adopt measures designed to effectively mitigate such risks. It consisted of various stages, documented and described in the Anti-money Laundering Unit's annual report, presented to the board of directors on 27 April 2018. The self-assessment identified a low level of residual exposure to these risks and the measures to eliminate critical issues detected during the procedure.

Compliance Unit

The Compliance Unit assesses the risk of non-compliance of the bank's strategic and operating decisions. It carries out preventive checks and subsequent monitoring of the effectiveness of procedures, mainly to prevent possible violations or infractions of the relevant legislation.

As provided for by Bank of Italy's Circular no. 2013/06 and subsequent updates, this Unit manages the risk of non-compliance using a risk-based approach, considering all the pertinent legislation.

Accordingly, it has direct and indirect responsibilities. Specifically, the Unit is directly responsible for management of the risk of non-compliance with the more significant rules related to the "core" scope, such as the performance of banking activities and financial intermediation, management of conflicts of interest, transparency versus customers and, in general, consumer protection laws.

As far as the non-core scope activities are concerned, the Unit's functions are scaled and specialised controls defined for each compliance area.

IT risks

The bank's IT systems are mainly housed on an operating platform supplied and managed by CSE - Consorzio Servizi Bancari Soc. Cons. a r.l. on an outsourcing basis. This guarantees the security, quality and reliability necessary for all the services used.

The bank also uses other application packages, mainly to provide IT support, analysis and control functionalities. They are installed and managed directly by the relevant internal offices.

The bank has drawn up a specific IT security policy given the fundamental importance of this issue.

The bank's primary objective is the secure processing of personal information and, therefore, the document has been prepared to ensure the correct performance of the internal information system, its correct working and resistance to hacking for the equipment exposed to internet risks.

The relevant internal units perform the related controls at different levels, focusing on checking that the security measures are updated regularly to reflect changes in risks deriving from unauthorised access, changes to personal data or its destruction, either unintentionally or intentionally.

As required by law, the outsourcer CSE has a disaster recovery plan which it regularly updates and checks in order to combat the significant risk of disaster and/or hacking.

While the currently directly managed application systems do not have any critical aspects, the bank has a backup plan with all the data recovered from the intranet servers as well as a recovery unit that can ensure complete operating continuity should the main systems be shut down.

In order to reduce the potential risks of on-line connections to the internet, the bank has a special portal and an intranet for internal e-mail management.

All bank employees who handle personal data and use electronic tools undergo training about the related risks and the proper procedures to adopt in order to avoid damaging events.

Business continuity and disaster recovery plans

In accordance with Bank of Italy's instructions, the bank has a business continuity plan prepared with the assistance of its IT outsourcer.

The issue of business continuity includes a purely technological component (disaster recovery) and an organisational aspect, aimed at defining a business continuity plan for emergencies to ensure a return to minimum operations in a short as possible time frame in the case of a disaster.

The plan's objective is to analyse the effects of events that could threaten the continuity of internal operating processes and to design the related preventive and remedial measures as well as any related actions to be taken to restore business operations as quickly as possible.

The bank's business continuity plan is consistent with the business continuity and disaster recovery plans adopted by CSE (Banking services consortium), which are also regularly updated and checked.

IT Audit

The engagement for the IT audit, checks of the general controls and security of the CSE IT systems for 2017 was assigned to leading specialists by the bank members of the consortium. These consultants also carried out checks and follow-ups of the main findings of the IT audit of the previous year and specific analysis of the system's vulnerability to threats and external attacks.

Another engagement for the important operating functions outsourced to Caricese was also assigned.

Data protection

In accordance with article 37 of Regulation (EU) 2016/279 (GDPR), in November 2018, the bank appointed a data protection officer (DPO) who has various duties including the monitoring of compliance with the GDPR and liaising with the data subjects and the Italian Data Protection Authority. The DPO is part of the newly set up Compliance and Privacy Office.

During the year, the bank prepared and sent its customers new communications, adopted new policies to manage personal data, set up the registers required by the GDPR and continued the activities necessary to align its internal security regulations, procedures and measures with the new regulatory requirements.

IVASS regulation of 2 August 2018 - Regulation on transparency, disclosure and design of insurance products

Italy transposed the Insurance Distribution Directive (IDD) mainly through two IVASS regulations that govern insurance brokerage, the training of staff and the transparency of insurance policies. The bank is required to comply therewith as it is a broker registered in section D of the Single Insurance Register.

Specifically, these regulations are:

1. regulation no. 40 of 2 August 2018 laying down provisions on insurance and reinsurance distribution, which sets out rules for market access, operations, practices to be adhered to when selling products to customers, including over the internet and the training and refresher courses for operators;
2. regulation no. 41 of 2 August 2018 on transparency, disclosure and design on insurance products, which introduces the pre-contractual information documents which have a simplified format and standard content to make their comprehension easier and allow a comparison of products (life and non-life) by consumers and the requirement to manage insurance policies in a computerised format.

The bank has complied with these regulations through its specific policies.

Law no. 231/2001 - Companies' administrative liability

Legislative decree no. 231/2001 introduced the administrative liability of companies for unlawful practices carried out by company key personnel in its interests. This decree provides for the non-liability of companies that have previously adopted and implemented an "Organisational model" suitable to prevent the crimes it sets out.

The bank checked its Organisational model during the year, also as regards the new predicate crimes, assisted by the supervisory body which checks its working, effectiveness and compliance. The body also ensures that it is up to date.

The duties of the supervisory body are carried out by the board of statutory auditors which may resort to the Internal Control Unit managers for specific functions.

THE BANK'S FINANCIAL POSITION

Lending

Breakdown of lending by product							
				Half year difference		Annual difference	
	31/12/2018	30/06/2018	31/12/2017	Amount	%	Amount	%
Current accounts	112,795	122,506	124,088	-9,711	-7.9%	-11,293	-9.1%
Postal current accounts	24	4,422	3,349	-4,398	-99.5%	-3,325	-99.3%
Financing for advances	136,828	133,973	135,349	2,855	2.1%	1,479	1.1%
Loans	609,662	598,669	606,090	10,993	1.8%	3,572	0.6%
Subsidies not settled through current accounts	50,705	46,808	52,814	3,897	8.3%	-2,109	-4.0%
Loans against pledges	60	63	62	-3	-4.8%	-2	-3.2%
Salary-backed loans	0	0	0	0	0.0%	0	0.0%
Bad exposures	51,079	43,831	59,973	7,248	16.5%	-8,894	-14.8%
Portfolio risk	381	224	323	157	70.1%	58	18.0%
Transactions with the Treasury Department	0	3,140	10	-3,140	-100.0%	-10	-100.0%
Total lending	**961,534**	**953,636**	**982,058**	**7,898**	**0.8%**	**-20,524**	**-2.1%**
- including: in Euros	960,852	952,622	981,171	8,230	0.9%	-20,319	-2.1%
- including: in foreign currency	682	1,014	887	-332	-32.7%	-205	-23.1%
Own HTC securities	227,338	0	0	227,338	0.0%	227,338	0.0%
Total caption 40. b)	**1,188,872**	**953,636**	**982,058**	235,236	24.7%	206,814	21.1%

Table 1

This business segment's performance cannot be analysed without considering the region's continued weak economic situation, as described in the introduction to this report.

A quick look at the figures in Table 1 shows a small decrease in the lending business.

An analysis of lending by product confirms the recovery of growth, first seen in the previous year, of the longer-term products due to the precise guidelines set out in the commercial policy; they amounted to €609,662 thousand compared to €606,090 thousand at the end of 2017, an increase of €10,993 thousand or 0.6%.

Renegotiated performing loans, as part of collective agreements, amounted to €3,202 thousand at year end compared to the 31 December 2017 balance of €2,469 thousand.

Current accounts amounted to €112,795 thousand at year end, down 9.1% on the previous year end, due to the weak demand, especially in the business sector, partly offset by the upturn in financing for advances from €135,349 thousand at 31 December 2017 to €136,828 thousand at the reporting date (+1.1%).

Bills presented for collection or under reserve show an annual increase of 9.8% (number of transactions) or 12.7% in terms of the amounts involved.

Subsidies not settled through current accounts decreased slightly to €50,705 thousand compared to €52,814 thousand at the end of 2017.

The lending business saw a 2.1% reduction on an annual basis with a total lending volume of €961,534 thousand for the year compared to €982,058 thousand for the previous year on a consistent basis and net of impairment losses, affected by the general economic performance as noted earlier.

The bank did not use derivatives to hedge interest rate risks on fixed rate loans during the year, also because of the perceived stability of the very low rates over time and the related small probability of their large, immediate rise.

The low credit quality affecting the entire banking sector is worrying. The lengthy economic crisis has affected the Marche region and clearly evidenced the chronic under-capitalisation of

companies, traditionally over-indebted to banks leaving them without those resources that would have allowed them to better face the crisis.

The probability of default (PD) of the bank's performing exposures remained substantially stable thanks to its ongoing careful borrower selection process. The expected loss rate was in line with that of the previous year.

The bank assessed its problem exposures very prudently in line with the policy issued in 2015.

Therefore, once again in 2018, the bank confirmed its role as a the major reference bank for the local households and businesses for which it took all steps possible to ensure that they did not have to do without financial assistance in this very difficult period, compatibly with their individual credit worthiness. New financing disbursed amounted to over €174 million.

This approach is at the heart of the bank's modus operandi, and it continues to find a compromise between its mission as the key reference bank in its area and the essential need to manage its operations in a healthy and prudent manner.

Its credit risk controls entailed the careful monitoring of non-current assets, both with respect to their financing and the risk that the repayment dates may be extended.

The Risk Management Unit kept general management up to date on developments with respect to the risk of repayment date extensions and the interest rate risk.

The next table provides a breakdown of the exposures at their carrying amount based on their ATECO codes and for amounts exceeding €5 million:

ATECO		Gross	Individual impairment loss	Collective impairment loss	Carrying amount
412000	Construction of residential and non-residential buildings	84,944,506.51	16,308,121.90	830,551.79	67,805,832.82
681000	Buying and selling of own real estate	50,295,696.91	6,737,240.08	588,896.00	42,969,560.83
682001	Property leases	36,925,892.51	2,946,761.03	299,547.24	33,679,584.24
152010	Footwear	27,635,099.67	2,093,973.93	200,024.04	25,341,101.70
152000	Footwear	21,137,238.43	6,307,533.19	125,191.79	14,704,513.45
551000	Hotels and similar structures	13,908,663.55	547,896.34	157,750.26	13,203,016.95
152020	Leather parts for footwear	12,978,000.37	201,942.74	71,317.09	12,704,740.54
471120	Supermarkets	8,944,360.26	873.61	103,134.00	8,840,352.65
561011	Catering	8,422,951.63	181,587.25	109,435.87	8,131,928.51
451101	Wholesale and retail sale of cars and light vehicles	7,120,981.61	201,937.25	89,221.53	6,829,822.83
591400	Film projection activities	6,959,785.87	722,202.32	1,612.60	6,235,970.95
494100	Goods transportation by road	6,313,447.83	93,966.58	84,622.58	6,134,858.67
682002	Business leases	6,339,886.92	161,672.15	118,862.74	6,059,352.03
462410	Wholesale of leather and raw and worked skins (excluding fur skins)	7,114,231.46	1,164,463.07	30,137.20	5,919,631.19
282309	Manufacturing of office machines and other equipment (excluding computers and peripheral systems)	5,612,207.01	-	8,930.11	5,603,276.90
464240	Wholesale of footwear and accessories	5,527,699.60	340,675.50	51,940.09	5,135,084.01
251100	Manufacturing of metal structures and assembled structural parts	5,228,688.86	63,061.13	53,722.35	5,111,905.38
310910	Production of household furniture	5,093,206.47	-	21,831.55	5,071,374.92
201500	Manufacturing of fertilizers and nitrogen compounds (excluding the manufacture of compost)	6,689,489.96	1,914,863.82	33.98	4,774,592.16
	TOTAL	**327,192,035.43**	**39,988,771.89**	**2,946,762.81**	**284,256,500.73**

Table 3

Credit quality indicators showed signs of improvement compared to the previous year. The total gross and carrying amount of non-performing exposures decreased steadily for the second consecutive year.

Gross non-performing exposures amounted to €197.1 million compared to €200.4 million at 31 December 2017, equal to more than 18% of the total exposures to customers.

This percentage shows the need to contain these non-performing exposures and return them to normal levels. As part of the NPE plan prepared in 2018 to drastically cut the volume of NPE, the bank is heavily involved in projects to significantly improve the percentage through:

1. transfers of smaller exposures to leading credit collection companies;
2. internal workout activities;
3. studies of the sale of part of the exposures.

The board of directors identified a portfolio of non-performing exposures that could be transferred for a gross amount of €52.5 million in conjunction with the FTA of IFRS 9.

It assessed these exposures using the fair values of the NPE of similar portfolios by type of guarantee (secured/unsecured) and borrower (business/private individual) provided by leading sector operators.

This assessment showed that the exposures identified during the FTA of IFRS 9 to be transferred had a smaller fair value. As a result, the bank recognised the resulting losses of €15,242 thousand in equity.

Non-performing exposures, net of impairment losses, which include bad, unlikely to pay and past due exposures, decreased by €17.9 million to €102.3 thousand (-14.9% on 31 December 2017), equal to 10.6% of total exposures compared to 12.2% at 31 December 2017.

The coverage rate of NPE increased from 40% to 48.08% in 2018.

Gross past due exposures decreased from €2.2 million to €1.8 million with a stable coverage rate of 12.2%.

The unlikely to pay exposures, including expected credit losses, amounted to €62.9 million compared to €71.2 million at 31 December 2017, with a coverage rate of 21%.

Bad exposures amounted to €132.4 million at 31 December 2018 compared to €127.1 million at the end of 2017, including expected credit losses, while accumulated impairment losses accounted for 61.4% of the total compared to 52.8% at the previous year end.

An analysis of irregular exposures shows that the percentage of new exposures reclassified as bad decreased during the year and amounted to €17,237 thousand, including €8,516 thousand previously classified as non-performing compared to new bad exposures of €18,262 thousand at 31 December 2017.

On the other hand, collections of bad exposures received during the year remained stable at €5,536 thousand.

The following table shows the performance of irregular exposures and the bank's coverage rate:

LOANS AND RECEIVABLES WITH CUSTOMERS - NPE					
		31/12/2018	31/12/2017	Difference amount	Difference %
NON-PERFORMING EXPOSURES	Gross amount	197,126	200,414	-3,288	-1.64%
	Impairment losses	94,773	80,128	14,645	18.28%
	Carrying amount	**102,353**	**120,286**	**-17,933**	**-14.91%**
coverage rate		48.08%	39.98%		
Bad exposures	Gross amount	132,434	127,067	5,367	4.22%
	Impairment losses	81,354	67,092	14,262	21.26%
	Carrying amount	**51,080**	**59,975**	**-8,895**	**-14.83%**
coverage rate		61.43%	52.80%		
Unlikely to pay exposures	Gross amount	62,910	71,160	-8,250	-11.59%
	Impairment losses	13,202	12,769	433	3.39%
	Carrying amount	**49,708**	**58,391**	**-8,683**	**-14.87%**
coverage rate		20.99%	17.94%		
Past due exposures	Gross amount	1,782	2,187	-405	-18.52%
	Impairment losses	217	267	-50	-18.73%
	Carrying amount	**1,565**	**1,920**	**-355**	**-18.49%**
coverage rate		12.18%	12.21%		

Table 4

LENDING	31/12/2018			31/12/2017	Difference		Coverage		
	Gross amount	Total impairment	Carrying amount	Carrying amount	Amount	%	31/12/2018	31/12/2017	30/06/2017
A. NPE	**197,126**	**94,774**	**102,352**	**120,286**	**-17,934**	**-14.91%**	**48.08%**	**39.98%**	**39.43%**
A.1 Bad exposures	132,434	81,355	51,079	59,975	-8,896	-14.83%	61.43%	52.80%	53.42%
A.3 Unlikely to pay exposures	62,910	13,202	49,708	58,391	-8,683	-14.87%	20.99%	17.94%	18.49%
A.2 Past due exposures	1,782	217	1,565	1,920	-355	-18.49%	12.18%	12.21%	7.59%
B. Performing exposures	867,050	7,868	859,182	861,773	-2,591	-0.30%	0.91%	0.92%	0.90%
TOTAL	**1,064,176**	**102,642**	**961,534**	**982,059**	**-20,525**	**-2.09%**	**9.65%**	**8.24%**	**8.41%**
Bad exposures/total exposures						**Carrying amount**	**5.31%**	**6.11%**	**6.01%**
NPE/total exposures							**10.64%**	**12.25%**	**12.89%**
Bad exposures/total exposures						**Gross**	**12.44%**	**11.87%**	**11.82%**
NPE/total exposures							**18.52%**	**18.73%**	**19.48%**

Table 4-bis

Collective impairment losses on performing exposures were recognised using the new impairment rules of IFRS 9 which has replaced IAS 39 starting from 1 January 2018.

The IT outsourcer CSE developed the model, which is based on the expected credit loss concept rather than the incurred loss approach of IAS 39, assisted by a leading consultancy company.

Under the new standard, performing exposures are classified into two stages

- *Stage 1*: performing exposures which have not seen a significant increase in their credit risk since initial recognition.
- *Stage 2*: performing exposures which have seen a significant increase in their credit risk since initial recognition.

The bank's board of directors defined the criteria for a "significant increase in credit risk", i.e., the criteria for their reclassification to stage 2 in its resolution of 27 March 2018. They considered indicators such as a worsening in the borrower's internal rating, or in the internal performance score (credit position control - CPS - score), the number of continued past due/overdrawn days and whether forbearance measures have been applied.

The 12-month PD was applied to performing exposures in stage 1 while the lifetime PD was applied to stage 2 performing exposures in order to calculate the expected loss.

The impairment losses were calculated considering a 12-month horizon for all those exposures that have not shown a significant deterioration while a lifetime horizon was considered when there was an decrease in the borrower's credit rating during the year.

As required by IFRS 9, the definition of expected credit losses for performing exposures includes forward-looking information.

The allowance for collective impairment losses, which covers the implicit risk on performing exposures, was €7,868 thousand at year end, down on the €8,017 thousand balance at 31 December 2017. This implied that the coverage rate of these exposures was stable at 0.91%.

The Loans Office includes a special unit which monitors credit to identify any customers with potential financial difficulties and coordinate the related cure treatment together with the relevant branch. Monitoring of credit risk, both for exposures and endorsement credit, involves a special application which identifies irregularities based on the individual customer's performance and any irregularities shown by external data bases.

As part of the internal control project, the bank has rolled out a more evolved system to assign ordinary customers (households, craftsmen, professionals, partnerships and companies) specific ratings depending on the type of company and, obviously, their financial position, results of operations and performance. This system will work alongside the CPC model and also considers the performance of the different business sectors to which the customers belong, integrated by subjective merit factors.

Specifically, the internal rating system uses three sources of information:

- analyses of the customer's relationship with the bank and the banking system in general;
- statistical analyses of their financial statements;
- qualitative analyses of aspects that require subjective assessment by an expert.

Through the careful assessment of the data generated by the available procedures, at the first signs of customer difficulty, the special unit of the Loans Office directly monitors the loan and works with the relevant branch to implement all suitable actions to return the relationship to normal, as the key priority.

Should the customer's financial position deteriorate again, the Problem Loans Office is charged with monitoring all its exposures in order to take all necessary steps to resolve the customer's difficulties. If appropriate, the office also commences and coordinates the workout procedures.

When this is not possible and the deterioration in the customer's financial position leads to its insolvency, even if not yet ascertained at judicial level and regardless of the existence of guarantees, the customer's entire position is transferred to the Legal Affairs Office so that legal recovery actions can be commenced, after cancellation of any credit facilities and the related reclassification as non-performing.

The bank's support of the local economy was not limited to the above lending transactions during the year as it also developed its asset brokerage business.

The following activities were carried out:

Leasing: the bank continued its operations in the finance lease sector through its operating agreements with Fraer Leasing S.p.A., leading to the execution of 71 contracts worth €11,132 thousand in addition to two contracts agreed with Alba Leasing for €550 thousand.

Credit cards: the bank was again very active in this sector with a total 17,455 credit cards issued at year end (+511). It reviewed its issue of Viacard and Telepass cards, including in organisational terms, with 10,014 cards issued at year end, an increase of 243 cards over 31 December 2017.

Consumer credit: during the year, consumer credit granted by the bank through major specialised companies increased in terms of the number of transactions and amounts involved.

Investments

The international stock markets performed extremely negatively during the year. Specifically, the most defensive indexes were those of the US (which limited its losses to 6% in US dollars), while the emerging economies, Europe and Japan recorded losses of well over 10%.

In this risk aversion scenario, all the bonds with spreads performed negatively with returns ranging from -1.1% for corporate investment grade bonds to roughly -3.5% for high yield bonds and -4.2% for US dollar emerging bonds.

Conversely and thanks to the flight to quality seen towards the end of the year, the Eurozone government bonds (excluding the Italian government bonds) and the US government bonds performed well. Given however the low initial returns and the need to deal with the four hikes in rates introduced by the Federal Reserve, the return never exceeded 1%.

Tensions between Rome and Brussels led to a long period of instability starting in May which affected the Italian government bonds, perceived to be very risky by the market. This triggered a rapid widening in the spread with the German Bund with highs of over 350 bps, triple the spread of April.

The bearish sentiment in the stock markets led to large losses of capital affecting most of the Italian banks.

The Euro appreciated considerably during the year compared to most of the emerging market currencies and the commodity currencies, gaining around 4% to 5% on the more stable currencies to even exceed 10% on the more volatile currencies such as the Russian rouble, the Brazilian real, the Turkish lira and the South African rand.

On the other hand, the Euro lost ground against the more defensive currencies at -7.1% against the Yen, -4.5% against the US dollar and -3.6% against the Swiss franc.

Given the above context, the bank continued its policy introduced in 2016 to diversify and decorrelate to a greater extent its portfolio in terms of the amounts and allocation strategies.

Asset management

During the year, the portfolio included equities with a maturity of 1.75 years (12%), corporate bonds (45%) and Eurozone government bonds (18%) on average.

In the first half of the year (excluding January), the equities component was kept at around 8% and mostly comprised Eurozone products. In the second six months of 2018, this component was increased to an average of 15% with preference going to US equities and this trend continued until December.

In fact, the bank introduced a strategy to purchase Eurostoxx 50 equities with dividend payouts in 2019, equal to 5% of the portfolio, in December.

The bonds component was more stable. The portfolio contained a larger proportion of Eurozone government bonds in the first few months of the year, which was decreased to 15% in May and kept around this mark for the rest of the year.

Investments in corporate bonds made up 40% of the portfolio in the first half of the year and increased to 50% by year end. However, these bonds have short maturities and are very diversified by both geographical and business segment.

Their duration was an average of 1.75 years and generally between 1 and 2.5 years, with less exposure during the first half of the year increasing in the second six months of 2018 mainly because the bank purchased US treasury bonds.

Over the year, the portfolio had short futures on the German Bund yield curve, partly to reduce its exposure to the rates on bond spreads.

Investments in currencies other than the Euro accounted for approximately 4% although this was higher early in the year. In addition to a reduction in this component of the portfolio, the bank's exposure to emerging market currencies was replaced by more defensive currencies such as the US dollar and the Yen.

The portfolio's overall gross performance was negative (-1.92%).

This was mostly seen in the last two months of the year as a result of the stock markets' poor performance.

The impact on the portfolio's bond component was basically nil as the government bonds and strategies achieved through the agreement of derivatives compensated the adverse trend of the corporate bonds. The currency component was not affected either as the defensive currencies mitigated the negative performance of the emerging market currencies, especially the Russian rouble.

The bank maintained its €30 million investment in the European Loan fund managed by M&G, a global asset management market leader.

M&G's European Loan Fund mostly invests in a diversified portfolio of leveraged loans to medium and large companies, principally based in the UK, the US and the major European countries. The loans are chiefly granted to finance internal growth, acquisitions, mergers and leveraged buyouts (LBO) of private equity sponsors. The fund's return objective is the Libor plus 400 bps.

Due to the negative performance of the corporate bonds, the fund's NAV decreased, substantially offsetting the coupons paid.

The bank's investment objectives and related diversification were wholly in line with its prudent approach to all its investments, not solely the financial ones.

The rest of the bank's financial investments is nearly entirely comprised of government bonds with the remainder consisting of senior bonds issued by major Italian banks.

Given the different composition of the financial instruments held by the bank and the current prudent supervisory regulations, the bank saw a rise in both market and counterparty risks, although they are still very modest.

The ongoing assessments of risk using the VaR model, covering both the outsourced component and the portfolio managed internally by the bank, showed that it always remained within the limits set by the board of directors.

Due to the adoption of the new business model required by IFRS 9, the bank's securities have been reallocated to the following portfolios:

HTC (hold to collect): this portfolio includes financial instruments with a steady coupon flow over time; the board of directors decides whether to invest in this type of instrument.

HTCS (hold to collect and sell): this portfolio includes liquid instruments listed in markets where the bank operates with a minimum rating of BBB- or the equivalent for Italian government bonds. Securities are classified in this portfolio if they will be held over time or sold depending on market trends;

HTS (hold to sell): this portfolio includes financial assets with a minimum rating of BBB- that ensure principal repayment should the short-term scenarios assumed by the finance committee materialise. If the loss thresholds are breached, the financial instruments are sold in the shortest possible timeframe. The portfolio comprises securities included in the management mandates given to third parties.

At year end, the securities portfolio was as follows:

Breakdown of HTC bonds
Nominal amount

			difference	
	31/12/2018	**31/12/2017**	**amount**	**%**
BOT Italian treasury bills and zero coupon bonds	39,874	0	39,874	0.00%
CCT Italian treasury certificates	54,350	0	54,350	0.00%
BTP Italian government bonds	134,766	5,000	129,766	2595.32%
Bonds	0	0	0	0.00%
Shares	0	0	0	0.00%
Total	**228,990**	**5,000**	**223,990**	**4479.80%**

Breakdown of HTCS bonds
Nominal amount

			difference	
	31/12/2018	**31/12/2017**	**amount**	**%**
BOT Italian treasury bills and zero coupon bonds	0	0	0	0.00%
CCT Italian treasury certificates	42,297	0	42,297	0.00%
BTP Italian government bonds	24,000	169,968	-145,968	-85.88%
Bonds	0	0	0	0.00%
Shares	0	0	0	0.00%
Total	**66,297**	**169,968**	**-103,671**	**-60.99%**

Breakdown of HTS bonds Nominal amount				
			difference	
	31/12/2018	31/12/2017	amount	%
BOT Italian treasury bills and zero coupon bonds	67,200	40,342	26,858	66.58%
CCT Italian treasury certificates	29,292	103,099	-73,807	-71.59%
BTP Italian government bonds	44,975	13,010	31,965	245.70%
Bonds	133,438	133,802	-364	-0.27%
Shares	29,702	51,736	-22,034	-42.59%
Total	**304,607**	**341,989**	**-37,382**	**-10.93%**

Table 5

For presentation simplicity and given their substantial similarity, the securities recognised in the HTM portfolio at 31 December 2017 were compared to the HTC portfolio, the AFS portfolio securities to those of the HTCS portfolio and the HFT securities to the HTS portfolio.

Fair value gains on the HTF portfolio amounted to €241 thousand compared to a fair value loss of €4,824 thousand, both recognised in profit or loss.

Changes in the trading book also generated a net trading loss of €341 thousand during the year.

During the year, the HTCS securities generated net trading income of €3,781 thousand recognised in profit or loss, thus partly offsetting the previously set-up reserve.

Equity investments

The bank has recognised its non-controlling interests in banks, financial and commercial companies in the fair value through other comprehensive income (FVOCI) portfolio and intends to hold on to these investments in the long term.

It does not have controlling investments.

In 2014, the bank signed a joint venture agreement pursuant to article 2549 of the Italian Civil Code for its involvement in production of a film, contributing €1,800 thousand. It recognised its investment in the AFS portfolio. During the FTA of IFRS 9, this investment was reclassified to the HTCS portfolio. The analysis of the investment's recoverable amount showed evidence of impairment and its remaining carrying amount of €315.7 thousand was fully impaired.

During the year, the bank increased its investment in CSE from 4% to 5% paying €1,250 thousand. Remeasurement of the investment at fair value led to a loss of €156 thousand.

As a result of the above transactions, the bank had equity investments of €15,208 thousand at year end compared to €13,425 thousand at 31 December 2017.

The annexes to the financial statements show a list of the bank's equity investments at year end, all classified in the HTCS portfolio as they do not meet the requirements for inclusion in caption 100 - Equity investments under Assets.

Funding

Direct funding increased and the bank's objective was to constantly and solely focus on cost-effective products.

It remained at the high levels achieved in previous years over the year even though the related interest rates had to be aligned with the continued negative market rates leading to zero interest in some cases.

During the year, the bank's funding, measured at its carrying amount, underwent the following changes:

Breakdown of direct funding by product							
				Half year difference		**Annual difference**	
	31/12/2018	**30/06/2018**	**31/12/2017**	**Amount**	**%**	**Amount**	**%**
Savings deposits	118,362	121,426	124,206	(3,064)	-2.5%	(5,844)	-4.7%
Current accounts	1,267,635	1,300,822	1,211,338	(33,187)	-2.6%	56,297	4.6%
Certificates of deposit	79,731	89,450	97,570	(9,719)	-10.9%	(17,839)	-18.3%
Bonds	-	-	35,556	-	0.0%	(35,556)	-100.0%
Third party funds under administration	1,597	396	75	1,201	303.3%	1,522	2029.3%
Total direct funding	**1,467,325**	**1,512,094**	**1,468,745**	**(44,769)**	**-3.0%**	**(1,420)**	**-0.1%**

Table 6

Overall, total funding amounted to €1,467,325 thousand, a slight decrease on an annual basis of 0.1%.

The next table shows the total breakdown of funding by business segment with more than 52.9% coming from households compared to 58% at the previous year end. At the same time, funding from companies and family businesses increased.

DUE TO CUSTOMERS			
SAE type		**Amount**	**% OF TOTAL**
4	COMPANIES	439,245	31.655%
61	ARTISANS AND FAMILY BUSINESSES	129,801	9.354%
60	HOUSEHOLDS	734,564	52.938%
99	OTHER	83,984	6.052%
	TOTAL	**1,387,594**	**100.000%**

Table 7

Euro and foreign currency current account overdraft runs, which are the most important product, increased again by €56,297 thousand (+4.6%) to €1,267,635 thousand, equal to over 86% of the bank's entire direct funding.

Savings products, which are increasingly obsolete and less requested by customers, lost ground slightly at €118,362 thousand.

Certificates of deposit dropped 18.3% to €79,731 thousand.

The bank did not deem that the conditions for new bond issues existed in 2018 due to the adverse tax measures, which are particularly significant given the market interest rates, and the negative regulations for this sector. Therefore, its senior bonds decreased to zero following the redemption of the previously issued bonds upon their maturity.

As part of an internal decision, the bank no longer offers repos to its customers.

Indirect funding at year end may be analysed as follows:

	31/12/2018	30/06/2018	31/12/2017	Half year difference		Annual difference	
				Amount	%	Amount	%
Indirect funding	764,405	801,952	799,081	-37,547	-4.68%	-34,676	-4.34%
Insurance and pension products	445,001	412,581	393,010	32,420	7.86%	51,991	13.23%
Total	**1,209,406**	**1,214,533**	**1,192,091**	-5,127	-0.42%	17,315	1.43%

	31/12/2018	30/06/2018	31/12/2017	Half year difference		Annual difference	
				Amount	%	Amount	%
CCT Italian treasury certificates	3,662	4,047	2,935	-385	-9.51%	727	24.77%
BTP Italian government bonds	148,034	145,467	153,157	2,567	1.76%	-5,123	-3.34%
BOT Italian treasury bills and zero coupon bonds	77	157	409	-80	-50.96%	-332	-81.17%
CTZ zero coupon bonds	0	0	2,509	0	0.00%	-2,509	-100.00%
Other government bonds	2,022	1,960	2,911	62	3.16%	-889	-30.54%
Foreign securities	15,085	15,683	14,074	-598	-3.81%	1,011	7.18%
Fixed rate bonds	8,044	10,895	11,384	-2,851	-26.17%	-3,340	-29.34%
Variable rate bonds	23,705	29,215	32,287	-5,510	-18.86%	-8,582	-26.58%
Equities	76,554	86,220	86,850	-9,666	-11.21%	-10,296	-11.85%
OEIC units	148,393	154,866	155,150	-6,473	-4.18%	-6,757	-4.36%
Mutual funds	324,156	337,048	319,342	-12,892	-3.82%	4,814	1.51%
Asset management	14,673	16,394	18,073	-1,721	-10.50%	-3,400	-18.81%
TOTAL	**764,405**	**801,952**	**799,081**	**-37,547**	**-4.91%**	**-34,676**	**-4.54%**
including: Total administered funds	277,183	293,644	306,516	-16,461	-5.61%	-29,333	-9.57%
including: Total managed funds	487,222	508,308	492,565	-21,086	-4.15%	-5,343	-1.08%
Managed/administered funds	63.74%	63.38%	55.16%				

Table 8

Indirect funding increased at year end to €1,208,406 thousand compared to €1,192,091 thousand at 31 December 2017 (+1.4%).

A breakdown of indirect funding, compared to that at 31 December 2017, shows customers' increasingly smaller interest in administered funds. The bank promptly identified this trend and has responded by offering very qualified products without a speculative component that best meet the average customer's requirements.

The administered funds business lost 21.85% during the year, partly caused by concerns about the government bonds market.

Managed funds contracted slightly by 1% due to the more widespread decrease seen in the financial markets, especially at year end. However, the balance of €487.2 million at 31 December 2018 showed the customers' high appreciation of the investment services and products made available by the bank.

Net funding from mutual funds and OEIC units confirmed the positive trend already seen in previous years, up €22.7 million compared to 31 December 2017.

The insurance products performed very well, with a large increase on the previous year end, from €393 million to €445 million (up approximately €52 million or 13.2%).

INCOME STATEMENT

The following table summarises the key income statement figures, using the same reclassification criteria adopted in previous years.

	2018	2017	Difference	
			amount	%
Net interest income	28,850	30,985	-2,135	-6.89%
Net operating income	56,604	67,746	-11,142	-16.45%
Operating costs	-49,915	-50,239	324	-0.64%
Operating profit	6,689	17,507	-10,818	-61.79%
Pre-tax profit from continuing operations	596	7,331	-6,735	-91.87%
Profit for the year	1,571	4,826	-3,255	-67.45%

Table 9

The individual balances are shown below:

Net interest income

	2018	2017	Difference	
			amount	%
Interest income:	***32,113***	***35,440***	***-3,327***	***-9.39%***
- Ordinary customers	28,570	30,658	-2,088	-6.81%
- Securities portfolio	3,466	4,756	-1,290	-27.12%
- Banks	77	26	51	196.15%
Interest expense:	***-3,263***	***-4,455***	***1,192***	***-26.76%***
- Ordinary customers	-2,197	-2,230	33	-1.48%
- Bonds	-717	-2,046	1,329	-64.96%
- Banks	-349	-179	-170	94.97%
Net interest income	**28,850**	**30,985**	**-2,135**	**-6.89%**

Table 10

Net interest income amounted to €28,850 thousand, a drop of 6.9% on the previous year.

As a result of the continued low interest rates, the bank saw a decrease in interest on financial products due to the steady reduction in coupons on securities held in its banking book.

Low interest rates on Italian government bonds affected the rates applied to ordinary customers, where the smaller stickiness of interest rates paid compared to those received is visible. However, thanks to vigilant monitoring, especially on the more remunerative positions, the bank was able to defend its profit margins.

The average annual rate paid on direct funding was 0.20% compared to the average 0.32% of 2017, a drop of 0.12 bps, and the 2018 year-end rate was 0.23%.

Interest income from ordinary customers went from an average 3.09% in 2017 to an average rate of 2.89% in 2018 equal to an average annual reduction of 20 bps. The year-end rate was 2.71%.

The total spread on average interest rates with ordinary customers was on average below that of the previous year as shown in the following graph, ending the year at 2.69%, down 9 bps:

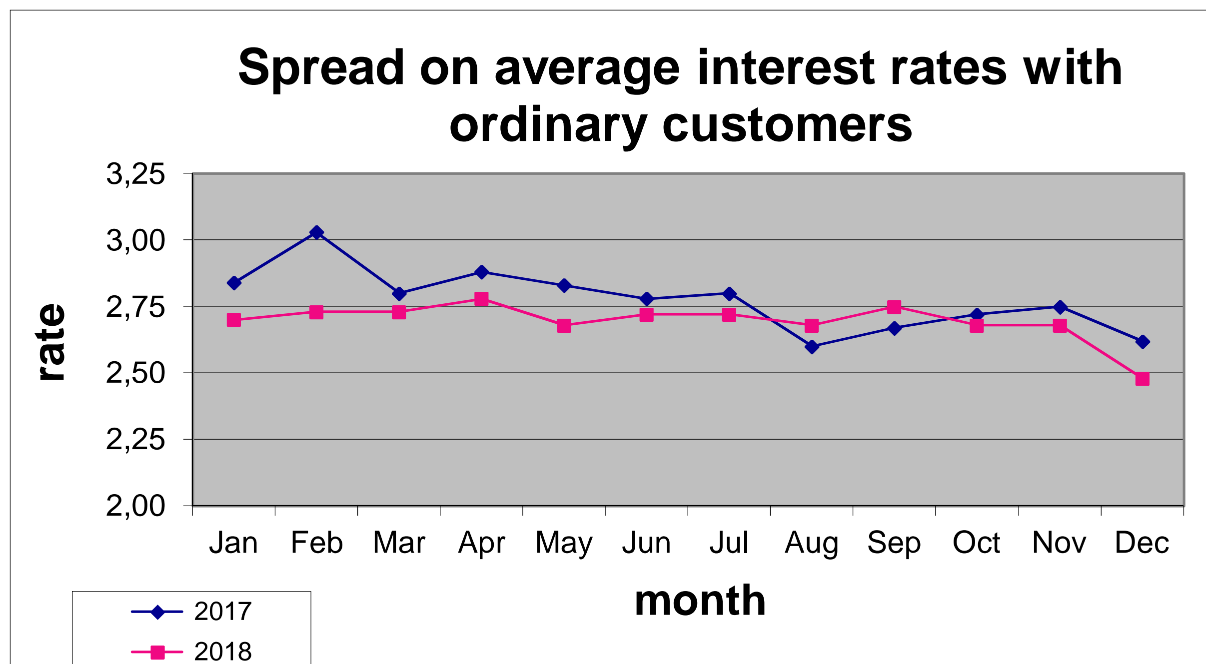


Table 11

NET OPERATING INCOME

	2018	2017	Difference	
			amount	%
Net interest income	**28,850**	**30,985**	**-2,135**	**-6.89%**
Dividends	1,727	1,991	-264	-13.26%
Net fee and commission income	24,490	22,363	2,127	9.51%
Net trading income (expense)	-2,541	5,977	-8,518	-142.51%
Net gains (losses) on financial assets and liabilities at fair value through profit or loss	-21	0	-21	0.00%
Other operating income	4,099	6,430	-2,331	-36.25%
Net operating income	**56,604**	**67,746**	**-11,142**	**-16.45%**

Table 12

Net operating income of €56,604 thousand decreased significantly on the previous year.

Dividends collected showed a slight reduction from €1,991 thousand for 2017 to €1,727 thousand for the year, mostly due to the smaller dividends from investments in shares related to management mandates and the replacement of these investments with listed derivatives.

Net fee and commission income jumped 9.5% to €24,490 thousand for the year. As part of this caption, securities placement commissions, increased from €4,196 thousand to €4,663 thousand, while fee and commission income earned on the distribution of third party products went from €3,182 thousand to €4,712 thousand, mainly earned on the placement of insurance products and credit cards as described earlier.

Fees and commissions on current account services came to €9,392 thousand while fee and commission income on collection and payment services increased to €3,306 thousand.

Net trading expense amounted to €2,541 thousand compared to €5,977 thousand for 2014, showing a decrease of €8,518 thousand.

This reduction is a result of the trading losses of €341 thousand and gains of €3,871 thousand on the sale of securities classified as HTCS. It also reflects the net unrealised losses of €4,583 thousand and fair value losses of €1,562 thousand on derivatives.

Other operating income decreased by €2,331 thousand to €4,099 thousand. In 2017, the bank had recognised non-recurring income due to compensation for damage, while non-recurring expense provided for in previous years in the provisions for risks and charges related to the settlement of a dispute for €700 thousand and the restoration costs of €583 thousand for the Santuario di Madonna dell'Ambro.

OPERATING PROFIT

	2018	2017	Difference	
			amount	%
Net operating income	**56,604**	**67,746**	**-11,142**	**-16.45%**
Personnel expense	-28,082	-28,018	-64	-0.23%
Administrative expenses	-20,192	-20,588	396	1.92%
Amortisation and depreciation	-1,641	-1,633	-8	-0.49%
Operating costs	**-49,915**	**-50,239**	**324**	**-0.64%**
Operating profit	**6,689**	**17,507**	**-10,818**	**-61.79%**

Table 13

The operating profit for the year was €6,689 thousand compared to €17,507 thousand for 2017 (-61.8%).

The caption includes a small increase in personnel expense (€64 thousand), while the administrative expenses decreased by €396 thousand and amortisation and depreciation were stable.

Increase:

1. consultancy, from €1,115 thousand to €1,192 thousand (+6.9%);
2. services received from third parties, from €3,753 thousand to €3,970 thousand (+5.8%), partly due to the greater resort to outsourcing;
3. contributions to the national resolution fund and the Interbank Deposit Protection Fund, from €1,048 thousand to €1,238 thousand (+18.1%).

Decrease:

1. legal fees for credit collection, from €1,971 thousand to €1,489 thousand. The reduction is entirely due to the one-off increase seen in 2017 related to payment for services provided by a law firm that no longer works with the bank;
2. lighting and heating, from €477 thousand to €466 thousand;
3. insurance, from €342 thousand to €328 thousand;
4. advertising and marketing, from €377 thousand to €342 thousand due to the reorganisation of the bank's advertising policies.

Pre-tax profit from continuing operations

	2018	2017	Difference	
			amount	%
Operating profit	**6,689**	**17,507**	**-10,818**	**-61.79%**
Net accruals to (utilisations of) provisions for risks and charges	1,536	-966	2,502	259.01%
Net impairment losses on loans and receivables	-7,505	-8,127	622	7.65%
Net impairment losses on other assets	-124	-1,142	1,018	0.00%
Net gains on held-to-maturity and other investments	0	59	-59	-100.00%
Pre-tax profit from continuing operations	**596**	**7,331**	**-6,735**	**-91.87%**

Table 14

The pre-tax profit from continuing operations amounted to €596 thousand compared to €7,331 thousand for 2017.

The net utilisations of €1,536 thousand of the provisions for risks and charges mostly refer to the settlement of a dispute for which the bank had accrued the exact amount to be paid in 2018. Completion of the restoration of the Santuario di Madonna dell'Ambro also led to utilisation of the provisions. The initial accrual entirely covered the related costs.

Loans and receivables with ordinary customers were measured using the methods set out in the notes to the financial statements with the usual prudent approach and in line with the bank's internal policy.

Impairment losses on NPE were based on the borrowers' objective repayment difficulties and the recovery value of the underlying guarantees, which the bank subjected to a tough systematic assessment. It also estimated the possible recovery times of the loans, considering the frequent resort to negotiations and made the related discounts.

Overall, the bank had to counter the drop in credit quality by recognising individual impairment losses and credit losses of €12,608 thousand, partially offset however by impairment gains of €5,103 thousand.

The net balance of impairment losses was €7,505 thousand, a decrease compared to €8,127 thousand recognised for 2017.

The cost of credit was 0.46%, better than the 0.55% for the previous year.

PROFIT FOR THE YEAR:

	2018	2017	Difference	
			amount	%
Pre-tax profit from continuing operations	**596**	**7,331**	**-6,735**	**-91.87%**
Income taxes	975	-2,505	3,480	138.92%
Profit (loss) from discontinued operations	0	0	0	0.00%
Profit for the year	**1,571**	**4,826**	**-3,255**	**-67.45%**

Table 15

Estimated direct taxes for the year came to €170 thousand compared to €2,085 thousand for 2017 and solely relate to IRAP.

The elimination of fiscally-driven entries led to the reversal of deferred taxes for a balance of €76 thousand.

Reimbursements of previously claimed tax assets for the deductibility of personnel expenses for IRAP purposes of €500 thousand (previously provided for in the provision for tax) allowed the bank to release the same amount from the provision. The bank also utilised the provision after approval of the tax benefit on the contribution to the film "Ma tu di che segno 6?".

Accordingly, the profit for the year amounted to €1,570 thousand.

Comprehensive expense for 2018 is €815 thousand compared to comprehensive income of €4,136 thousand for the previous year.

The actuarial gains of €333 thousand recognised on post-employment benefits and the supplementary pension fund and the reduction of €2,292 thousand in the fair value reserve, net of the related taxes, mainly due to sales during the year, and the fair value differences on the HTCS securities affected the comprehensive expense.

Cash flows

The statement of cash flows has been prepared using the indirect method as allowed by IAS 7. Cash flows generated and used during the year are split between operating, investing and financing activities.

Operating activities used cash flows of €104,857 thousand, including €2,567 thousand from operations, while financial assets and financial liabilities used and generated cash of €129,345 thousand and €27,056 thousand, respectively.

Investing activities used cash flows of €951 thousand, mostly due to the purchase of property, equipment and investment property and intangible assets.

Financing activities used cash flows of €2,279 thousand to pay dividends to shareholders in 2018 using the profit for 2017.

As a result, the net cash outflows for the year were €108,086 thousand.

Indicators

The customary analysis using financial statements indicators is set out in table 16:

Financial statements indicators	2018	2017
Capitalisation ratios:		
Equity / total assets	8.90%	9.57%
CET 1 ratio	15.09%	15.65%
Tier 1 ratio	15.09%	15.65%
Total capital ratio	15.09%	15.65%
Non-current assets/equity	9.91%	9.90%
Net NPE/equity	33.75%	37.10%
Own funds/third-party funds	10.31%	11.01%
Risk ratios:		
Net NPE/total exposures	5.31%	6.34%
Coverage ratio for performing exposures	0.91%	0.92%
Allowance for impairment/total exposures	9.65%	8.52%
New NPE rate	1.62%	1.88%
Profitability ratios:		
Net interest income/total income	54.95%	48.06%
Gains from financial transactions/total income	-4.84%	10.24%
Cost of credit	0.46%	0.55%
Gross operating profit/equity	4.42%	9.02%
ROE	1.04%	2.99%
ROA	0.09%	0.29%
Tax rate	-163.87%	34.17%
Net other administrative expenses/total income	29.38%	26.84%
Personnel expense/total income	53.48%	47.98%
Administrative expenses/total income	82.87%	74.82%
Cost/income	85.99%	77.62%
Fair value losses/gains on securities	79.09%	79.04%
Administrative expenses/total assets	2.84%	2.88%
Productivity - Distribution efficiency:		
Loans and receivables with customers/employees	2,544	2,440
Due to customers/employees	3,882	3,785
Total income/average employees	137.089	152.269
Average employees/branches	6.383	6.392
Cost per employee	70.84	70.64
Loans and receivables with customers and due to customers/average employees	6,342	6,298
Total assets/employees	4.497	4.354
Loans and receivables with customers and due to customers/branches	40,481	40,255
Branch employees/employees	70.11%	69.07%

Table 16

Indicators reflecting the bank's core business are summarised in the above table, split into four macro areas.

The indicators for the bank's capitalisation continued to be very high.

The CET1 ratio decreased slightly to 15.09 bps from 15.65 bps for 2017, partly due to the bank's election to apply the transitional arrangements and recognise the losses generated by FTA of IFRS 9 over five years at increasing percentages.

The net NPE/equity ratio shrank to 33.75% from 37.1% for 2017.

The improved credit risk indicators reflect the bank's focus on reducing and containing NPE. In fact, new NPE decreased sharply from 1.88% to 1.62%.

The coverage rate of performing exposures continues to be very positive at 0.92%.

The cost/income ratio is 86%. It is particularly affected by the losses recognised in profit or loss, and net of these losses, it would have been 79.1%.

That being said, ROE is 1.04%.

The efficiency indicator shows a modest improvement due to the reduction in employees at year end.

Objectives: have they been met

The objectives set out in the business plan, which the board of directors revised and updated in June 2016 and which is valid until 31 December 2018, were the bank's main points of reference for the year.

At the end of the last year of the three-year plan, the bank's actions to make its organisation and production more efficient should be acknowledged.

These actions were carried out in line with the plan's objectives to achieve the plan's very ambitious objectives, designed mainly to adjust the recurring income statement captions and provide customers with a more tailored service. During the year, the bank achieved the following objectives:

1. the distribution network's service model performed very well; the branches' profits more than quadrupled;
2. continuation of the project for the new branch layout at the refurbished Fermo and Campiglione branches and construction of the first fully automated Carifermo branch in Marina Palmense;
3. change in the opening hours of some smaller branches;
4. acquisition of an additional investment in CSE;
5. set up of a unit to anticipate and prevent credit quality deterioration.

The quantitative objectives for 2018 were based on forecasts made at the end of 2015 by very reputable research institutes, which indicated a significant reversal in the economic crisis in 2016 together with an increase in lending and a reduction in impairment losses on loans in a scenario characterised by continued very low interest rates.

Lending, including the allowance for impairment, estimated to amount to €1,103 thousand at year end, actually came to €1,064 thousand, which was 3% off the target.

Direct funding was estimated to amount to €1,409 million compared to the actual €1,467 million: an increase of €58 million.

Indirect funding, including pension funds and insurance policies, was estimated to amount to €1,476 million compared to the actual €1,209 million: a difference of €267 million partly due to the technical and communication difficulties in activating the life policy product in the initially planned time frame.

Profitability: the 2016-2018 business plan provided for fairly stable profitability in the first two years, to be followed by an increase in the third year and total profit for the three years of around €17.6 million. The expected scenario included stabilised profits, with the smaller contribution of net financial income and the greater impact of fees and commissions mostly from the network's intensified activities to place large amounts of managed funds and insurance products as well as the increase in loans and receivables with customers in a situation where the cost of credit has flattened out considerably.

The plan forecasts did not consider:

1. the crisis that has affected the Italian government bonds since May 2018;
2. the continued economic crisis, which held back the expected growth in lending;
3. the onerous costs of the contributions to the Interbank Deposit Protection Fund and of compliance with the regulations;
4. transition to IFRS 9.

The bank's profit of €1,570 thousand for the year was affected by external factors that were not provided for in the business plan and could not objectively have been foreseen. Net of these factors, the profit for the year would have been in line with the forecasts despite the above-mentioned non-recurring events.

Table 17 shows the actual results achieved:

	Plan	Actual 2018	Difference	%
Net interest income	27,140	26,210	-930	-3.43%
Revenue from services	27,836	24,490	-3,346	-12.02%
Other revenue	5,580	4,099	-1,481	-26.54%
Net trading income (expense)	4,513	-834	-5,347	-118.48%
Total income	**65,069**	**53,965**	**-11,104**	**-17.06%**
Administrative expenses	-20,454	-20,192	262	-1.28%
Amortisation and depreciation	-1,615	-1,641	-26	1.61%
Personnel expense	-28,137	-28,082	55	-0.20%
Operating profit	**14,863**	**4,050**	**-10,813**	**-72.75%**
Impairment losses	-6,466	-3,455	3,011	-46.57%
Pre-tax profit from continuing operations	**8,397**	**595**	**-7,802**	**-92.91%**
Income taxes	-2,377	975	3,352	-141.02%
Profit for the year	**6,020**	**1,570**	**-4,450**	**-73.92%**
Equity	**160,416**	**152,910**	**-7,506**	**-4.68%**

Table 17

On a like-for-like basis, the objectives would have been met.
The larger differences are due to:

1. net interest income, which underperformed the plan by €930 thousand, due to the unexpected performance of the interest rate curves and the very positive direct funding which was well above expectations;
2. revenue from services which was 15% below the plan targets;
3. net trading income, greatly below expectations (€5347 thousand);
4. net administrative expenses which were substantially in line with the plan;
5. impairment losses on loans and receivables and accruals to provisions for risks and charges that were higher than expected.

The bank recognised fair value losses of €10.5 million in equity due to the FTA of IFRS 9, which meant that its equity did not reach the target €160.4 million.

Bank of Italy/Consob/Isvap (the Italian Insurance Companies Supervisory Authority) document no. 2 of 6 February 2009

The directors state that they have assessed the bank's profitability and liquidity for a period of not less than 12 months from the reporting date based on the business plan, the 2019 budget and all other available information.

With respect to the bank's liquidity, the board of directors confirms the following management guidelines:

1. ongoing alignment and monitoring of interbank credit facilities;
2. maintenance of a lending/funding ratio always below the 90% threshold identified by the board of directors as prudential.

With respect to the bank's profitability, the board of directors believes that, despite this difficult economic period, the bank has appropriate profitability margins for the near and far future notwithstanding increasing volatility in its results due to changed economic conditions and application of IFRS 9, which could lead to greater volatility in its results given the requirement to apply fair value measurement to an increasingly wider range of assets.

It is sufficient to consider the following:

a. the bank has never made a loss despite other unfavourable economic periods;
b. it has a large market share and its local ground roots have actually been strengthened by its strong reputation and efficiency characteristics that it has built up over the years;
c. Its high capitalisation and prudent approach are a solid basis for dealing with any future risks;
d. the 2019-2021 business plan includes a wide-ranging programme of actions designed to improve the bank's efficiency by extending its synergies with the non-controlling investor Intesa Sanpaolo.

It can, therefore, clearly be seen that the going concern assumption is fully met without having to provide any more details.

Bank of Italy document no. 0265719/13 of 15 March 2013

This communication focuses on the measurement of loans and receivables, remuneration and dividend policies.

It mainly deals with banks' capitalisation in light of their requirement for funds as a result of the current recession.

The central bank expects bank bodies to adopt strict and transparent criteria for the measurement of financial statements captions and to adopt dividend distribution policies that ensure adequate capitalisation.

In full compliance with these instructions, the bank has built up its risk monitoring activities in 2018 in line with its objective of maintaining high capitalisation levels and to continue its actions taken in previous years. Measurement of irregular loans and receivables was very affected by the need to align controls to the tough annual assessment of guarantees.

This policy, monitored continuously to focus on the bank's capitalisation and to comply with the new regulations about the calculation of own funds, as set out in Regulation (EU) no. 575/2013 (the CCR), Directive no. 2013/36/EU and Bank of Italy Circular no. 285/2013, led to the very acceptable Own Funds and Tier 1 ratios achieved.

The total capital ratio was 15.09% at year end, which was much higher than the mandatory level and those set by the SREP.

The bank's remuneration policy for its key management personnel hinges on maximum prudence, limiting the variable part indexed to financial statements data to just the mechanisms provided for by labour agreements while another part, agreed annually by the board of directors, is based on quantitative/qualitative assessments of the work performed by the management team.

Outlook

2018 started well with the economic recovery sweeping from the US, where it has continued seamlessly since 2011, to Europe which had not seen uniform growth up until the end of 2017.

The financial markets responded well to the monetary stimuli and were not affected by the potentially upsetting events such as the US - North Korea diplomatic crisis or Brexit in Europe.

However, although the year was characterised by generalised and, perhaps overly hasty, euphoria at the start, it ended with an exaggerated pessimism.

Concerns were stoked by geopolitical factors such as the US government's protectionist stance that affected trade with both China and the EU.

The EU's economy then slowed down as shown by the downturn in the GDP of Germany, France and Italy. Another negative factor was Brexit as the negotiations do not seem to be progressing well.

The extended holiday period of monetary stimuli introduced by the central banks seemed set to end in 2018 with the Federal Reserve that increased its rates four times while the ECB ended its assets purchase programme, followed by the Japanese central bank.

In addition, technical issues continued to concern the markets: after ten years of continued increases, portfolios are undoubtedly much beleaguered which has encouraged the significant sales seen in the last few months.

However, something changed in early 2019. The signs of an easier relationship between the US and China multiplied, while in the EU, Italy's situation seems to have been resolved and the agreements have given the European Commission greater confidence about the Italian government's intention to improve its debt ratio.

Fears about a "no deal Brexit" have encouraged the negotiators to work intensely to avoid this outcome even though all the attempts to date have been shipwrecked by the English parliament's isolationist stance and there continues to be great uncertainty about whether a deal is possible.

The European economies seem to be healthier. The upswing of the first few months of the year has encouraged optimism about more consistent growth in the second half of 2019. The Chinese economy should also see strong growth if its government manages to come to an agreement with the US.

The monetary markets also seem to be much relaxed. The FOMC's first meetings of 2019 reflected a more diplomatic Federal Reserve and the planned three hikes in rates for 2019 currently seem to have been put on the back boiler.

The ECB has confirmed its accommodating stance and has put off possible rate increases while announcing more LTRO programmes, which had kick-started the monetary expansion policies.

Finally with respect to the financial markets' technical aspects, December sales led to more balanced portfolios which even had a lower-than-necessary component of equities according to the analysts, generating expectations of a better performance in 2019.

The Marche region's economy is very slowly recovering its export market share, notwithstanding the sizeable difficulties encountered in recent years due to the restrictions on trade with Russia, which adversely affected exports to that country. The Euro's depreciation against the other main currencies makes it increasingly easy to increase exports.

The 2016 earthquake that affected the local populations hit the region's economy hard but the economic development plans are very slowly having a positive effect.

The bank will continue to implement its business plan and, specifically, will adhere to Bank of Italy's guidelines for NPE management by:

- strengthening its credit process and subsequently its lending volumes;
- introducing projects to decrease its NPE;
- building up revenue to continue the trend of the last three years, including by extending the customer portfolio;
- focusing on and containing financial risks;
- dedicating resources to professional training to assist customers.

Moreover and based on the business plan, the bank should see an initial large improvement in its net interest income thanks to more efficient commercial policies.

Revenue is expected to increase significantly thanks to net fee and commission income after the strong rise in sales of managed funds and insurance products.

The bank will continue to closely monitor its credit risk. The cost of credit is expected to be around the 2017 level, although it will remain high.

The service model modification should prove positive with the offer of a range of diversified services to customers, including managed funds and corporate finance products. The related recurring income will allow the bank to improve its results of operations.

Net financial income's contribution will become less important. Introduction of the new business model for financial assets has lessened the adverse impact of changes in fair value of these asset on the income statement and own funds.

Operating costs are expected to increase somewhat.

Conclusions

To wind up this report, I would like once again to firstly thank all our customers that continue to choose Cassa di Risparmio di Fermo S.p.A. as their bank in definitely not an easy year and are confident that the bank has been able to repay such choice with its top quality services.

The bank's activities are those set out by the Fondazione Cassa di Risparmio di Fermo which are its reference point and guiding light. The expert assistance of the shareholder Intesa Sanpaolo provided continuously to our staff improving their approach and professional standing contributes great added value.

We are deeply appreciative of the managing director's expert and enthusiastic assistance provided to the board of directors and for her ability to guide the bank in this period characterised by significant legislative discontinuities and a difficult economic situation.

The precious assistance provided by the entire board of statutory auditors is also worthy of mention.

We would also like to especially thank all the bank's employees for their willingness to embrace change in a professional manner and diligently.

Finally, we would like to express our gratitude to the supervisory authorities and, especially, the Ancona branch manager, Gabriele Magrini Alunno, for his availability as well as all the personnel at that branch for their assistance.

On behalf of the board of directors
The Chairman

Fermo, 26 March 2019

STATEMENT OF FINANCIAL POSITION: ASSETS

	Assets	31/12/2018	31/12/2017
10.	Cash and cash equivalents	33,965,889	142,052,261
20.	Financial assets at fair value through profit or loss	305,218,894	254,658,582
	a) held for trading	*304,724,009*	*254,658,582*
	b) designated at fair value	-	-
	c) mandatorily measured at fair value	*494,885*	-
30.	Financial assets at fair value through other comprehensive income	79,573,280	229,180,118
40.	Financial assets at amortised cost	1,208,490,721	1,005,731,874
	a) loans and receivables with banks	*19,618,480*	*18,673,971*
	b) loans and receivables with customers	*1,188,872,241*	*987,057,903*
50.	Hedging derivatives	-	-
60.	Macro-hedging adjustments to financial assets (+/-)	-	-
70.	Equity investments	-	-
80.	Property, equipment and investment property	14,870,293	15,823,418
90.	Intangible assets	122,051	179,966
	including:	-	-
	- goodwill	-	-
100.	Tax assets	22,673,945	19,143,094
	a) current	*3,330,908*	*5,471,646*
	b) deferred	*19,343,037*	*13,671,448*
110.	Non-current assets held for sale and disposal groups	-	-
120	Other assets	34,978,368	22,672,833
	Total assets	**1,699,893,441**	**1,689,442,146**

STATEMENT OF FINANCIAL POSITION: LIABILITIES

	Liabilities and equity	31/12/2018	31/12/2017
10.	Financial liabilities at amortised cost	1,468,697,773	1,471,861,861
	a) due to banks	*1,373,183*	*3,116,465*
	b) due to customers	*1,387,593,799*	*1,335,618,326*
	c) securities issued	*79,730,791*	*133,127,070*
20.	Financial liabilities held for trading	288,801	200,704
30.	Financial liabilities designated at fair value	-	-
40.	Hedging derivatives	-	-
50.	Macro-hedging adjustments to financial liabilities (+/-)	-	-
60.	Tax liabilities	1,429,457	*4,919,445*
	a) current	*402,540*	*3,415,086*
	b) deferred	*1,026,917*	*1,504,359*
70.	Liabilities associated with disposal groups	-	-
80.	Other liabilities	57,798,123	23,935,363
90.	Post-employment benefits	8,005,154	8,768,145
100.	*Provisions for risks and charges:*	*10,763,931*	*13,271,763*
	a) loan commitments and financial guarantees given	*152,205*	*186,499*
	b) pension and similar obligations	*8,362,303*	*9,334,223*
	c) other provisions	*2,249,423*	*3,751,041*
110.	Valuation reserves	10,423,757	12,884,638
111	including: associated with disposal groups	-	-
120.	Redeemable shares	-	-
130.	Equity instruments	-	-
140.	Reserves	67,014,605	74,872,925
145	*including: interim dividends*	-	-
150.	Share premium	34,660,068	34,660,068
160.	Share capital	39,241,087	39,241,087
170.	Treasury shares (-)	-	-
180.	Profit for the year	1,570,685	4,826,147
	Total liabilities and equity	**1,699,893,441**	**1,689,442,146**

INCOME STATEMENT

		2018	2017
10.	Interest and similar income	32,113,452	35,440,261
	including: interest calculated using the effective interest method	*2,638,662*	*2,921,254*
20.	Interest and similar expense	- 3,263,756	- 4,455,526
30.	**Net interest income**	**28,849,696**	**30,984,735**
40.	Fee and commission income	25,898,566	23,685,793
50.	Fee and commission expense	- 1,408,400	- 1,322,593
60.	**Net fee and commission income**	**24,490,166**	**22,363,200**
70.	Dividends and similar income	1,727,358	1,990,885
80.	Net trading income (expense)	- 6,321,335	269,932
90.	Net hedging income (expense)	-	-
100.	Net gain from sales or repurchases of:	3,781,201	5,707,370
	a) financial assets at amortised cost	-	-
	b) financial assets at fair value through other comprehensive income	*3,781,017*	*5,717,789*
	c) financial liabilities	*184*	*- 10,419*
110.	*Net loss on other financial assets and liabilities at fair value through profit or loss*	- 21,265	-
	a) financial assets and liabilities designated at fair value	-	-
	c) other financial assets mandatorily measured at fair value	*- 21,265*	-
120.	**Total income**	**52,505,821**	**61,316,122**
130.	Net impairment losses for credit risk associated with:	- 7,629,222	- 9,268,079
	a) financial assets at amortised cost	*- 7,505,157*	*- 8,126,522*
	b) financial assets at fair value through other comprehensive income	*- 124,065*	*- 1,141,557*
140.	*Modification gains/losses*	-	-
150.	**Net financial income**	**44,876,599**	**52,048,043**
160.	Administrative expenses:	- 48,274,472	- 48,606,060
	a) personnel expense	*- 28,082,499*	*- 28,017,960*
	b) other administrative expenses	*- 20,191,973*	*- 20,588,100*
170.	Net accruals to provisions for risks and charges	1,535,912	- 965,899
	a) loan commitments and financial guarantees given	*- 30,331*	*13,019*
	b) other	*1,566,243*	*- 978,918*
180.	Depreciation and net impairment losses on property, equipment and investment property	- 1,552,461	- 1,546,148
190.	Amortisation and net impairment losses on intangible assets	- 88,587	- 87,067
200.	Other operating income, net	4,098,608	6,429,780
210.	**Operating costs**	**- 44,281,000**	**- 44,775,394**
220.	Gains (losses) on equity investments	-	-
230.	Fair value gains (losses) on property, equipment and investment property and intangible assets	-	-
240.	Impairment losses on goodwill	-	-
250.	Net gains (losses) on sales of investments	- 413	58,647
260.	**Pre-tax profit from continuing operations**	**595,186**	**7,331,296**
270.	Income taxes	975,499	- 2,505,149
280.	**Post-tax profit from continuing operations**	**1,570,685**	**4,826,147**
290.	Post-tax profit (loss) from discontinued operations	-	-
300.	**Profit for the year**	**1,570,685**	**4,826,147**

STATEMENT OF COMPREHENSIVE INCOME

		2018	2017
10.	**Profit for the year**	**1,570,685**	**4,826,147**
	Items, net of tax, that will not be reclassified to profit or loss:		
20.	Equity instruments at fair value through other comprehensive income	- 426,510	-
30.	Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	-
40.	Hedges of equity instruments at fair value through other comprehensive income	-	-
50.	Property, equipment and investment property	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	332,567	31,870
80.	Non-current assets held for sale and disposal groups	-	-
90.	Share of valuation reserves of equity-accounted investees	-	-
	Items, net of tax, that will be reclassified to profit or loss:		
100.	Hedges of investments in foreign operations	-	-
110.	Exchange gains (losses)	-	-
120.	Cash flow hedges	-	-
130	Hedging instruments (non-designated items)	-	-
140.	Financial assets (other than equity instruments) at fair value through other comprehensive income	- 2,292,251	- 721,687
150.	Non-current assets held for sale and disposal groups	-	-
160.	Share of valuation reserves of equity-accounted investees	-	-
170.	**Other comprehensive expense, net of tax**	**- 2,386,194**	**- 689,817**
180.	**Comprehensive income (expense) (captions 10 + 170)**	**- 815,509**	**4,136,330**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	31/12/2017	Change to opening balances	1/01/2018	Allocation of prior year profit		Changes for the year								Equity at 31/12/2018
						Changes in reserves	Equity transactions						2018 comprehensive expense (? la cifra però è quella del 2018 profit)	
				Reserves	Dividends and other allocations		Issue of new shares	Repurchase of own shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock options		
Share capital:	**39,241,087**	**-**	**39,241,087**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**39,241,087**
a) ordinary shares	39,241,087	-	39,241,087	-	-	-	-	-	-	-	-	-	-	39,241,087
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	**34,660,068**	**-**	**34,660,068**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**34,660,068**
Reserves:	**74,872,925**	**- 10,405,217**	**64,467,708**	**2,546,897**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**67,014,605**
a) income-related	71,603,165	-	71,603,165	2,546,897	-	-	-	-	-	-	-	-	-	74,150,062
b) other	3,269,760	- 10,405,217	- 7,135,457	-	-	-	-	-	-	-	-	-	-	- 7,135,457
Valuation reserves:	**12,884,638**	**- 74,687**	**12,809,951**	**-**	**-**	**- 2,386,194**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**10,423,757**
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit for the year	**4,826,147**	**-**	**4,826,147**	**- 2,546,897**	**- 2,279,250**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,570,685**	**1,570,685**
Equity	**166,484,865**	**- 10,479,904**	**156,004,961**	**-**	**- 2,279,250**	**- 2,386,194**	**-**	**-**	**-**	**-**	**-**	**-**	**1,570,685**	**152,910,202**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	31/12/2016	Change to opening balances	1/01/2016	Allocation of prior year profit		Changes for the year								Equity at 31/12/2017
							Equity transactions							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of own shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock options	2017 comprehensive expense (? la cifra però è quella del 2017 profit)	
Share capital:	**39,241,087**	**-**	**39,241,087**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**39,241,087**
a) ordinary shares	39,241,087	-	39,241,087	-	-	-	-	-	-	-	-	-	-	39,241,087
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	**34,660,068**	**-**	**34,660,068**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**34,660,068**
Reserves:	**72,295,920**	**-**	**72,295,920**	**2,577,005**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**74,872,925**
a) income-related	69,026,160	-	69,026,160	2,577,005	-	-	-	-	-	-	-	-	-	71,603,165
b) other	3,269,760	-	3,269,760	-	-	-	-	-	-	-	-	-	-	3,269,760
Valuation reserves:	**13,574,455**	**-**	**13,574,455**	**-**	**-**	**- 689,817**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12,884,638**
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit for the year	**5,236,130**	**-**	**5,236,130**	**- 2,577,005**	**- 2,659,125**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,826,147**	**4,826,147**
Equity	**165,007,660**	**-**	**165,007,660**	**-**	**- 2,659,125**	**- 689,817**	**-**	**-**	**-**	**-**	**-**	**-**	**4,826,147**	**166,484,865**

STATEMENT OF CASH FLOWS: indirect method

A. OPERATING ACTIVITIES	Amount	
	2018	2017
1. Operations	**- 2,567,306**	**9,435,079**
- profit for the year	1,570,685	4,826,147
- net gains/losses on financial assets held for trading and other financial assets/liabilities at fair value through other comprehensive income (-/+)	4,482,427	- 1,021,513
- gains/losses on hedging transactions (-/+)	-	-
- net impairment losses for credit risk	6,607,728	7,137,000
- amortisation, depreciation and net impairment losses on property, equipment and investment property and intangible assets (+/-)	1,947,954	1,910,586
- net accruals to provisions for risks and charges and other costs/revenue (+/-)	- 1,535,912	59,601
- unpaid taxes and duties (+/-)	244,500	2,505,149
- net impairment losses/reversals of impairment losses on non-current assets held for sale and disposal groups, net of tax (+/-)	-	-
- other adjustments (+/-)	- 15,884,688	- 5,981,891
2. Cash flows generated by/used for financial assets	**- 129,345,044**	**77,313,450**
- held for trading	- 49,573,690	75,718,403
- designated at fair value	-	-
- mandatorily measured at fair value	- 516,150	-
- at fair value through other comprehensive income	148,519,803	42,530,943
- at amortised cost	- 221,473,267	- 42,020,491
- other assets	- 6,301,740	1,084,595
3. Cash flows generated by financial liabilities	**27,055,544**	**22,855,839**
- at amortised cost	- 3,164,088	22,022,256
- held for trading	88,097	- 453,366
- at fair value	-	-
- other liabilities	30,131,535	1,286,949
Net cash flows generated by/used in operating activities	**- 104,856,806**	**109,604,368**
B. INVESTING ACTIVITIES		
1. Cash generated by	**430**	**101,006**
- sales of equity investments	-	-
- dividends from equity investments	-	-
- sales of property, equipment and investment property	430	101,006
- sales of intangible assets	-	-
- sales of business units	-	-
2. Cash flows used to acquire	**- 950,746**	**- 864,899**
- equity investments	-	-
- property, equipment and investment property	- 600,179	- 525,080
- intangible assets	- 350,567	- 339,819
- business units	-	-
Net cash flows used in investing activities	**- 950,316**	**- 763,893**
C. FINANCING ACTIVITIES		
- Issue/repurchase of treasury shares	-	-
- Issue/purchase of equity instruments	-	-
- Dividend and other distributions	- 2,279,250	- 2,659,125
Net cash flows used in financing activities	**- 2,279,250**	**- 2,659,125**
NET CASH FLOWS FOR THE YEAR	**- 108,086,372**	**106,181,350**

Key: (+) generated; (-) used

Reconciliation:

	Amount	
	2018	2017
Opening cash and cash equivalents	142,052,261	35,870,911
Net cash flows for the year	- 108,086,372	106,181,350
Cash and cash equivalents: exchange gains (losses)	-	-
Closing cash and cash equivalents	33,965,889	142,052,261

NOTES TO THE FINANCIAL STATEMENTS

PART A
Accounting policies

A.1 – GENERAL PART

Section 1 – Statement of compliance with the IFRS

The financial statements of Cassa di Risparmio di Fermo S.p.A. as at and for the year ended 31 December 2018 have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission with EC regulation 1606 of 19 July 2002 and applied in Italy with article 1 of Legislative decree no. 38 of 28 February 2005. The instructions issued by Bank of Italy in its Circular no. 262 of 22 December 2005 and subsequent updates have also been considered.

The bank also referred to the Framework for application of the IFRS.

The bank changed the accounting policies applied to classify, recognise, measure and derecognise financial assets and liabilities and to recognise revenue and costs compared to its 2017 financial statements.

These changes are substantially due to the mandatory application of the following standards as of 1 January 2018:

- IFRS 9 “Financial instruments”, issued by the IASB in July 2014 and endorsed by the European Commission with Regulation (EU) 2067/2016. The new standard superseded IAS 39 in the classification and measurement of financial instruments and the related impairment;

- IFRS 15 “Revenue from contracts with customers”, endorsed by the European Commission with Regulation (EU) 1905/2016, which superseded IAS 18 “Revenue” and IAS 11 “Construction contracts”.

When a standard or an interpretation did not exist for a specific transaction, event or circumstance, the board of directors used its judgement to develop and apply an accounting policy in order to provide information that is:

- useful as a basis for the users to take financial decisions;
- reliable, so that the financial statements:
  - give a true and fair view of the bank’s financial position, financial performance and cash flows;
  - reflect the economic substance of transactions, other events and circumstances and not merely their legal form;
  - are neutral, i.e., are not biased;
  - are prudent;
  - are complete with reference to all significant aspects.

When exercising its judgement, the board of directors made reference to, and considered the applicability of the following sources, set out below in decreasing order of importance:

- the guidance and instructions set out in the standards and interpretations for similar or related cases;
- the definitions and recognition and measurement requirements for assets, liabilities, revenue and costs provided in the Framework.

The board of directors may also refer to the most recently issued measures of other accounting standard setters that use a framework similar to that of the IFRS to develop such standards, other accounting reference documentation and consolidated practices.

Pursuant to article 5 of Legislative decree no. 38 of 28 February 2005, when, in exceptional cases, application of a provision established by the IFRS is incompatible with the true and fair view of an entity’s financial position, financial performance and cash flows, it is not applied.

Any gains arising from application of the above-mentioned departure are recognised in a non-distributable reserve to the extent of the amount that can be recovered.

Section 2 – Basis of presentation

The financial statements are clearly stated and give a true and fair view of the bank's financial position, financial performance and cash flows. They comprise a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and these notes and are accompanied by a directors' report. When the disclosures required by the IFRS and the instructions set out in Bank of Italy Circular no. 262 of 22 December 2005, and subsequent amendments, are not sufficient to give a true and fair, material, reliable, comparable and understandable view of the bank's financial position, results of operations and cash flows, additional information is provided in the notes.

The general guidelines for presentation of the financial statements are:

- the assumption of going concern;
- the accruals basis of accounting: costs and revenue are recognised on an accruals basis;
- in order to ensure data and disclosure comparability, the bank elected to adopt the practical expedients provided for by IFRS 9.7.2.15 and the exemptions set out in paragraphs E1 and E2 of IFRS 1 "First-time adoption of International Financial Reporting Standards", whereby the prior year comparative figures are not required to be restated in the financial statements to which new standards are applied for the first time. According to the guidance included in the fifth update of Bank of Italy Circular no. 262 "Banks' financial statements: layouts and preparation", in their first set of financial statements prepared under the updated circular, banks availing of the exemption from the restatement of the comparative figures shall include a reconciliation between the figures of the most-recently approved financial statements and the figures included in the financial statements prepared under the new requirements;
- in 2011, the IASB published IAS 19 (revised), introducing, inter alia, new accounting treatments for defined benefit plans, which include pension funds and the Italian post-employment benefits. The bank applied the revised standard starting from 2012. The most significant effects on the bank's financial statements are as follows:
  1. actuarial gains and losses:
     a. elimination of the corridor approach and full recognition in profit or loss;
     b. adoption of the model of immediate recognition in equity (i.e., other comprehensive income");
     c. the costs recognised in profit or loss are those relating to the actuarial capitalisation (i.e., interest cost);
     d. service costs, i.e., the increase in the present value of future benefits attributable to the service period is, in the bank's case, equal to zero, since pension funds do not include any current employees but only retired employees;
- materiality and aggregation: each material class of similar items is presented separately in the statement of financial position and the income statement. Items of a dissimilar nature or function are presented separately unless they are immaterial;
- offsetting: assets and liabilities, income and expenses are not offset, unless expressly required or permitted by a standard or an interpretation or the above-mentioned Bank of Italy Circular no. 262 of 22 December 2005 and subsequent amendments;
- substance over form: the financial statements are presented in accordance with the principle of substance over form;
- comparative information: comparative information in respect of the previous year is disclosed for all amounts reported in the current year's financial statements.

Pursuant to article 5 of Legislative decree no. 38 of 28 February 2005, the financial statements have been prepared using the Euro as the reporting currency.

Section 3 - Events after the reporting date

IFRS 16 became applicable on 1 January 2019. Paragraph 15.5 of the section on the accounting policies provides information of the quantitative effects of applying these new standards.

Section 4 - Other aspects

Use of estimates and assumptions to prepare the financial statements

Preparation of financial statements and the notes thereto under the IFRS requires management to make estimates and assumptions that affect the carrying amount of recognised assets and liabilities and the disclosure about contingent assets and liabilities at the reporting date. The estimates and assumptions are based on past experience and other relevant factors. The actual results may differ from the estimates. Management reviews the estimates and assumptions regularly and the effects of any changes thereto are reflected in profit or loss in the period of the change, if the change affects that period only, or the period of the change and future periods, if the change affects both.

Management performs analyses, which are sometimes complex, of loans and receivables with customers for their classification and to identify exposures that show possible impairment after disbursement based on internal information based on the borrower’s repayment trend and external information based on the reference sector and the borrower’s total exposure to banks.

Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the existence of any indicators of impairment, estimates about the borrowers’ ability to repay, an assessment of any guarantees and the impact of macroeconomic variables and risks of the sectors in which the bank’s customers operate.

Following the adoption of the business model approved by the board of directors on 27 November 2018 and effective from 1 January 2018, the bank classified its financial assets accordingly.

A2 – ACCOUNTING POLICIES

1 - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

a) Recognition

Debt and equity instruments are initially recognised at their settlement date while derivative contracts are recognised at the date they are signed.

Financial assets held for trading are initially recognised at fair value, which usually equals the consideration paid, without considering transaction costs or revenue, which are recognised in profit or loss.

Embedded derivatives in structured financial instruments whose characteristics are not strictly correlated with those of the host instrument and that meet the definition of a derivative are separated from the host contract and recognised at fair value in profit or loss.

The host contract is recognised using the relevant standard.

b) Classification

Financial assets at fair value through profit or loss include debt and equity instruments acquired to make profits, including through their trading, which meet the requirements of the bank's business model.

Hedging derivatives with positive fair values are included in this caption, including those embedded in financial instruments that meet the conditions for separation of the underlying derivatives.

c) Measurement

Financial assets held for trading are measured at fair value following initial recognition. Changes in fair value are taken to profit or loss.

The fair value of financial instruments listed on active markets equals the reporting date market closing prices.

The fair value of financial instruments traded on inactive markets is determined using commonly adopted estimation/valuation models that take into account market data such as methods based on the measurement of listed instruments with similar characteristics, calculation of discounted cash flows, option pricing models, prices registered in recent similar transactions, considering the different risk profiles of the instruments.

The zero coupon rates derived from the closing swap rates are used to discount the above cash flows.

A market is defined as inactive when there are significant differences in the bid/ask prices of the instrument in question.

d) Derecognition

These financial assets are derecognised when the contractual rights to cash flows therefrom expire or the financial asset is sold, transferring substantially all the related risks and rewards.

e) Recognition of costs and revenue

Interest and dividends are recognised under "Interest and similar income" and "Dividends and similar income", respectively. Trading income or expense and gains or losses on the sale of financial assets are recognised under "Net trading income (expense)".

2 - FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

a) Recognition

Financial assets managed under the hold to collect and sell (HTCS) model are initially recognised at the settlement date (debt and equity instruments) or at the disbursement date (loans and financing). They are initially recognised at fair value, which usually equals cost, including any transaction costs or revenue.

b) Classification

This category includes non-derivative financial assets that passed the SPPI test and are managed under a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The caption includes equity investments not held for trading and that do not qualify as investments in subsidiaries, associates or interests in joint ventures.

c) Measurement

These financial assets are subsequently measured at fair value with any fair value gains or losses being recognised in a specific equity reserve.

The fair value of financial instruments listed on active markets equals the reporting date market closing prices.

The fair value of financial instruments not traded on an active market is determined based on the price of instruments with similar characteristics or the present value of future cash flows, considering the different risk profiles inherent in the instruments, or based on the actual prices for trades of the same asset.

The zero coupon rates derived from the closing swap rates are used to discount the above cash flows.

A market is defined as inactive when there are significant differences in the bid/ask prices of the instrument in question.

When fair value cannot be determined reliably, equity instruments and related derivatives are carried at cost.

HTCS financial assets are tested for impairment collectively whenever there are objective indications that their carrying amount has decreased by 25% or more and there is no evidence of a probable reversal or they have undergone impairment for at least two consecutive years, due to a worsening in the issuer's solvency or the other indicators provided for in IFRS 9.
Impairment losses on debt instruments are recognised in profit or loss with a balancing entry in a special equity reserve.
When the reasons for impairment no longer exist, an impairment gain is recognised, with a balancing entry in:

- equity for equity instruments;
- profit or loss for debt instruments.

d) Derecognition

These financial assets are derecognised when the contractual rights to cash flows therefrom expire or the financial asset is sold, transferring substantially all the related risks and rewards.

e) Recognition of costs and revenue

Interest and dividends are recognised under "Interest and similar income" and "Dividends and similar income", respectively. Gains or losses on the sale of financial assets are recognised under "Gain (loss) on sale or repurchase of financial assets at fair value through other comprehensive income". Gains and losses on the fair value measurement of HTCS financial assets are recognised in the "Fair value reserve" under equity and reclassified to profit or loss when sold, except for those on equities.

Impairment losses/gains arising from impairment testing are recognised as "Net impairment losses/gains on financial assets at fair value through other comprehensive income", while those on equity instruments are recognised in the "Fair value reserve" under equity.

3 - FINANCIAL ASSETS AT AMORTISED COST

LOANS AND RECEIVABLES WITH CUSTOMERS AND BANKS

a) Recognition

Loans and receivables are initially recognised at the disbursement date or, in the case of a debt instrument, at the settlement date, based on the financial instrument's fair value, which usually equals the amount disbursed, or the subscription price, including transaction costs or revenue attributable to the individual loan or receivable and determinable from the transaction start date, even when they are disbursed subsequently.

The initially recognised amount does not include costs that, despite having the above characteristics, are to be reimbursed by the counterparty or that are administrative costs. Reverse repurchase agreements and repurchase agreements are recognised as lending or funding transactions.

Specifically, spot resale and forward repurchase agreements are recognised as a liability for the spot amount received while spot repurchase and forward resale agreements are recognised as an asset for the spot amount paid.

b) Classification

Under the bank's business model, this category includes the non-derivative loans and debt instruments with banks and customers, both disbursed directly and purchased from third parties, with fixed or determinable repayments.

This caption includes trade receivables, reverse repurchase agreements, finance lease receivables, debt instruments classified into the hold to collect (HTC) portfolio with customers and securities purchased as part of underwriting or private placement transactions with fixed or determinable repayments, including listed on an active market.

c) Measurement

When managed under a business model whose objective is to collect the contractual cash flows at maturity and, therefore, they passed the SPPI test, loans and receivables are measured at amortised cost. In this case, they may be sold when their credit risk increases or when they near maturity and, therefore, the proceeds from their sale approximates their residual cash flows, as long as they are consistent with their business model.
After initial recognition, loans and receivables are measured at amortised cost, that is, they are measured at initial recognition minus/plus principal repayments, impairment losses/reversals of impairment losses and cumulative amortisation, using the effective interest method. The effective interest rate is the date that exactly discounts estimated future payments over the expected life of the loan or receivable to the carrying amount at the time of initial recognition, including directly attributable transaction costs and amounts paid or received between the contracting parties.

The amortised cost method is not used for short-term loans (with maturities of less than 18 months) as discounting these loans has no material impact. They are measured at historical cost.

Loans without a specified maturity and revocable loans are treated similarly.

Loans and receivables are tested for impairment at least at each annual or half yearly reporting date to determine whether there is objective evidence of impairment due to events subsequent to initial recognition or a worsening in the debtors' solvency.

The stage 3 non-performing exposures include bad exposures, unlikely to pay exposures and exposures past due by more than 90 days. They are tested for impairment individually, using different methods depending on the amount: positions classified as non-performing up to €50 thousand are measured statistically using the loss percentages calculated from year to year using the internal SAR.A. rating model (see section 4.3.3.1 Credit policy). The impairment loss is equal to the difference between their carrying amount at the (annual or interim) measurement date (amortised cost) and the present value of the recoverable cash flows, calculated using the original effective interest rate. Estimated future cash flows are determined considering the estimated recovery time and the estimated realisable amount of any guarantees. The original

effective interest rate of each exposure is unchanged over time. The recovery time is reasonably estimated considering general or specific factors. General factors include the estimated recovery time considering the nature of the transaction while specific factors include the estimate of future cash flows considering negotiations for an out-of-court settlement or ongoing debt rescheduling plans. The bank monitors the difference between the originally planned recovery time and the effective cash flows to best estimate the expected recovery times.

Exposures for which objective indicators of impairment are not identified, i.e., performing, are managed under the HTC business model if they pass the SPPI test and are measured at amortised cost.
IFRS 9 has introduced new impairment rules for performing exposures using not only 12-month but also lifetime risk factors (PD, LGS, EAD and ECL). It also replaced the "incurred credit losses" approach with the "expected credit losses (ECL)" approach. Following the application of this approach, the bank has categorised its exposures into stages based on the 12-month or lifetime ECL and the increase in their credit risk. Therefore, any changes to the ECL, credit risk and forecast future conditions may cause a huge variation in the collective assessment of performing exposures.

In accordance with the above impairment rules, performing exposures are classified as follows:

- stage 1: financial instruments whose credit risk has not significantly increased since initial recognition or with a low credit risk at the reporting date;
- stage 2: financial instruments whose credit risk has increased significantly since initial recognition, but for which there is no objective evidence of impairment;

Impairment losses are recognised in profit or loss.

The loss attributable to discounting cash flows of stage 3 exposures is released on an accruals basis using the effective interest method and recognised as interest income.

The HTC debt instruments are also tested for impairment collectively whenever there are objective indications that their carrying amount has decreased by 25% or more and there is no evidence of a probable reversal or they have undergone impairment for at least two consecutive years, due to a worsening in the issuer's solvency or the other indicators provided for in IFRS 9.

Collectively-determined impairment losses are recognised in profit or loss.

Any additional impairment losses or gains are recalculated at each reporting date using a different approach considering the entire performing exposure portfolio and debt instruments at that date.

When the reasons for impairment are no longer valid, the impairment loss is reversed.

d) Derecognition

Loans and receivables and debt instruments transferred are derecognised when substantially all the risks and rewards of ownership of the asset are transferred.

Conversely, if the risks and rewards associated with the asset are retained, the loan or receivable continues to be recognised to the extent of the bank's continuing involvement in the asset, even though legal title has been transferred.

When it is not possible to verify the substantial transfer of the risks and rewards, the assets are derecognised when no control thereover is retained. If even a portion of control is retained, the asset continues to be recognised in line with the bank's continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows.

Finally, transferred loans and receivables are derecognised when the bank retains the contractual rights to receive the related cash flows with the concurrent obligation to pay them to a third party.

e) Recognition of costs and revenue

Interest is recognised under "Interest and similar income". Impairment losses and gains are recognised under "Net impairment losses/gains on loans and receivables".

Gains or losses on sales are shown under "Gain (loss) on sales or repurchases of loans and receivables".

4 - HEDGING DERIVATIVES

The bank has not undertaken hedging transactions.

5 - EQUITY INVESTMENTS

At the reporting date, the bank did not have investments in subsidiaries or associates.

6 - PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY

a) Recognition

They are recognised at cost, including directly related charges.

Subsequent maintenance expenditure is capitalised if it leads to an increase in the future economic benefits generated by the asset.

Borrowing costs are recognised in accordance with IAS 23 and are, therefore, recognised as a cost in the year in which they are incurred.

b) Classification

Property, equipment and investment property include land, owned buildings and investment property, furniture, fittings, technical systems and other assets held for use in production or to supply goods and services, for lease to third parties or for administrative purposes which will be used over more than one period.

This caption also includes leasehold improvements and related costs when the asset is identifiable and separable. Buildings and appurtenance land are recognised separately when purchased.

c) Measurement

Property and equipment are measured at cost net of accumulated depreciation and any impairment losses.

They are depreciated systematically over their useful lives on a straight-line basis, except for land which has an indefinite useful life and is not depreciable. Should the carrying amount of land be included in that of the related building, they are separated using an appraisal performed by sector experts.

These assets are tested for impairment when there is objective indication thereof.

Investment property is measured at fair value, which is determined periodically using specific appraisal estimates prepared by sector experts.

d) Derecognition

An asset is derecognised when divested or when it is no longer used and its disposal is not expected to generate future risks or benefits.

e) Recognition of costs and revenue

Accumulated depreciation and any impairment losses on property and equipment are recognised under “Depreciation and net impairment losses on property, equipment and investment property”. Fair value gains and losses on investment property are recognised under “Fair value gains (losses) on property, equipment and investment property”.

7 - INTANGIBLE ASSETS

a) Classification

Intangible assets include long-term software licences.

b) Recognition and measurement

Intangible assets are recognised at cost, including directly related charges only when it is probable that the future economic benefits of the asset will materialise and its cost can be determined reliably.

The cost of assets with finite lives is amortised on a straight-line basis over their useful lives.

c) Derecognition

Intangible assets are derecognised upon their disposal or when no future benefits are expected therefrom.

d) Recognition of costs and revenue

Accumulated amortisation is recognised under "Amortisation and net impairment losses on intangible assets". Impairment losses on goodwill and intangible assets with indefinite useful lives are taken to "Impairment losses on goodwill" and "Amortisation and net impairment losses on intangible assets", respectively.

8 - NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE AND DISPOSAL GROUPS

The bank does not have non-current assets classified as held for sale.

9 - CURRENT AND DEFERRED TAXES

a) Classification

Current tax assets and liabilities consist of tax advances paid and income taxes on the tax base for the year, respectively.

Deferred tax assets and liabilities originate on the temporary differences between the carrying amounts of assets and liabilities and their tax bases.

b) Recognition and measurement

Current and deferred taxes, calculated in accordance with the Italian tax legislation, are recognised on an accruals basis, in line with the costs and revenue generating them and using enacted tax rates. Income taxes are recognised in profit or loss except for those related to captions recognised directly in equity.

Income taxes are provided for based on a prudent estimate of the current and deferred taxes.

Current taxes are the net of current tax liabilities and current tax assets, being the advances and tax withholdings paid.

Deferred taxes are determined considering the temporary differences (without time limits) between the carrying amount of assets and liabilities and their tax bases.

Following enactment of Law no. 214/2011, governing the recognition of deferred tax assets, a round table was held during which Bank of Italy, Consob and ISVAP discussed the issue in the light of the IFRS. On 15 May 2012, they published a document stating that, due to the above-mentioned law, the probability test is automatically passed, as the recoverability of deferred tax assets is now certain in any circumstances. Accordingly, they are recognised in the financial statements.

Deferred tax liabilities are recognised since the amount of the available taxed reserves is such that it can reasonably be held that transactions which require their taxation will not take place.

Deferred tax assets and liabilities are recognised in the statement of financial position without offsetting.

c) Recognition of costs and revenue

Current and deferred taxes are recognised under "Income taxes".

They are recognised in equity if they relate to transactions recognised directly in equity.

10 - FINANCIAL LIABILITIES AT AMORTISED COST

LIABILITIES AND SECURITIES ISSUED

a) Recognition

These financial liabilities are recognised when the amounts are received or the debt instruments are issued.

They are initially recognised at fair value, which is normally equal to the consideration received or the issue price, plus or minus any additional costs or revenue directly attributable to the individual transaction and not reimbursed to the creditor. The fair value of financial liabilities issued at other than market conditions is estimated and the difference compared to the consideration received is recognised directly in profit or loss, when the conditions of IFRS 9 are met.

b) Classification

Due to banks, due to customers and securities issued include the characteristic types of interbank and customer funding as well as lending through certificates of deposit and bonds issued net of any repurchases.

c) Measurement

After initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Conversely, current financial liabilities continue to be measured at the consideration received as the effect of the amortised cost measurement would be negligible.

d) Derecognition

Financial liabilities are derecognised when they expire or are extinguished. They are also derecognised when previously issued securities are repurchased. The difference between their carrying amount and the amount paid to repurchase them is recognised in profit or loss.

If the repurchased security is subsequently placed on the market again, this is treated as a new issue and is recognised at the new placement price, with no effect on profit or loss.

e) Recognition of costs and revenue

Interest is recognised under “Interest and similar expense”. Gains and losses on the repurchase of the liabilities are shown under “Gain (loss) from sales/repurchases of financial liabilities”.

11 - FINANCIAL LIABILITIES HELD FOR TRADING

a) Recognition

Financial liabilities held for trading are initially recognised at the settlement date while derivatives are recognised at their agreement date.

They are initially recognised at fair value, which usually equals the consideration received, without considering directly related transaction costs and revenue.

b) Classification

The category includes financial liabilities held for trading and embedded derivatives with a negative fair value.

c) Measurement

Financial liabilities held for trading are subsequently measured at fair value through profit or loss.

Market prices are used to determine the fair value of financial instruments listed on active markets. If an active market does not exist, commonly adopted estimation/valuation models that

take into account market data such as methods based on the measurement of listed instruments with similar characteristics, calculation of discounted cash flows, option pricing models and prices registered in recent similar transactions are used.

d) Derecognition

Financial liabilities held for trading are derecognised when they expire, are extinguished or all the related risks and rewards are transferred to third parties.

e) Recognition of costs and revenue

Fair value gains and losses are recognised in "Net trading income (expense)".

12 - FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The bank has not undertaken this type of transaction.

13 - FOREIGN CURRENCY TRANSACTIONS

a) Recognition and derecognition

Foreign currency transactions are initially recognised in Euros by applying the exchange rate prevailing at the transaction date.

b) Classification and measurement

Foreign currency assets and liabilities are translated into Euros at each reporting date using the following criteria:

- ✓ monetary items are translated using the closing rates;
- ✓ non-monetary items measured at historical cost are translated using the transaction-date exchange rates;
- ✓ non-monetary items measured at fair value are translated using the closing rates.

c) Measurement of costs and revenue

Exchange differences arising from the settlement of monetary items or from the translation at exchange rates other than the initial translation rate or the prior closing rate are recognised in profit or loss in the period in which they arise.

When the gain or loss on a non-monetary item is recognised in equity, the exchange gain or loss is also taken to equity. However, when the gain or loss is recognised in profit or loss, the related exchange gain or loss is recognised there too.

All exchange gains and losses are recognised under "Net trading income (expense)".

14 - PROVISIONS FOR RISKS AND CHARGES

a) Recognition and derecognition

b) Classification

c) Measurement

Pension and similar provisions

They include the supplementary pension fund organised by INPS (the Italian social security institution).

The fund, which technically is a defined benefit plan, includes accruals to guarantee pensioners with the related vested rights a supplementary pension, determined on an objective and realistic forward-looking basis, equal to the "mathematical reserve" calculated by an external actuary. It is recognised in accordance with IAS 19 as amended by the IASB in 2011, which eliminated the corridor approach and requires the immediate recognition of any actuarial gains or losses in equity (OCI).

Other provisions

Other provisions include provisions made when the following concurrent conditions are met:

a) the bank has a present legal or constructive obligation as a result of a past event;
b) it is probable that an outflow of resources will be necessary to settle the obligation;
c) the obligation can be determined reliably.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation or transfer it to third parties at the closing date.

The types of events that could require provisions are:

a) ongoing legal disputes;
b) risks for ongoing claw-back claims;
c) certain or probable obligations arising from contractual commitments or an executive ruling which is not yet final.

When the effect of the time value of money is material, the provisions are discounted using the spot market rates at the closing date. The item "Loan commitments and financial guarantees given" shows the provisions for credit risk associated with loan commitments and financial guarantees given that fall within the scope of IFRS 9.

d) Recognition of costs and revenue

Accruals to these provisions are recognised in "Net accruals to provisions for risks and charges" while those for post-employment benefits are recognised under "Personnel expense".

15 - OTHER INFORMATION

15.1. Post-employment benefits

a) Recognition

b) Classification

c) Measurement

d) Derecognition

Post-employment benefits are recognised at their actuarial value.

This value is determined using the procedure for defined benefit plans and the projected unit credit method, whereby future payments are projected using historical series analyses and demographical trends and discounted using a market rate.

Accruals are recognised under "Personnel expense" and include the Italian Civil Code revaluation and interest expense on the increase in present value due to the time value of money. The actuarial gains or losses are calculated in accordance with IAS 19, as amended by the IASB in 2011, which eliminated the corridor approach and their full recognition in profit or loss, requiring their recognition in other comprehensive income (OCI), hence directly in an equity reserve without affecting profit or loss.

e) Recognition of costs and revenue

Accruals for post-employment benefits are recognised in "Personnel expense" in the income statement. Actuarial gains and losses are recognised as other comprehensive income, in a specific equity reserve.

15.2 - Treasury shares

The bank did not have any treasury shares in its portfolio at the reporting date.

15.3 - Dividends and revenue recognition

In accordance with IFRS 15, revenue is recognised when the contractual obligation to transfer a promised good or service is met. Transfer is considered to be completed when the customer obtains control of the good or service. This may take place in two ways:

1) over time, or
2) at a point in time.

Specifically, dividends are recognised in profit or loss when they are paid.

Income from the trading or issue of financial instruments, being the difference between the transaction price and the instrument's fair value, is recognised in profit or loss when the transaction is recognised if the fair value can be determined using parameters or recent transactions on the same market as that on which the instrument is traded; if not, they are deferred and recognised over the instrument's term considering its nature.

Income from financial instruments that cannot be measured using the above methods is taken to profit and loss over the transaction's term.

15.4 – Effects of FTA of IFRS 9 and IFRS 15

IFRS 9 and IFRS 15 became applicable on 1 January 2018. The main areas affected by their application are summarised below.

The bank's analyses of the FTA of IFRS 15, which covered all contracts and all types of revenue, showed that its accounting treatment of revenue from contracts with customers was already in line with the requirements of the new standard and, therefore, there were no FTA effects.

In order to comply with the requirements of IFRS 9, according to which financial assets shall be classified based on the characteristics of their contractual cash flows and the business model within which they are managed, the bank established how the characteristics of the contractual cash flows should be tested (SPPI test) and formalised a business model.

Based on the defined approach, the bank performed the SPPI test starting from an analysis of its exposures in portfolio at 31 December 2017, in order to correctly classify them upon initial application of the new standard.

Specifically, it carried out a thorough analysis of its debt instruments classified as at amortised cost and AFS under IAS 39 and identified those assets that did not pass the SPPI test, which have been classified as at fair value through profit or loss under IFRS 9. Only a small portion of its debt instruments did not pass the SPPI test. The FTA did not have a significant effect on loans and receivables.

Based on its analysis, the bank adopted the HTCS business model to manage most of the debt instruments classified as AFS under IAS 39, except for those included in the assets managed by Epsilon and those of the European Loan fund of M&G, which have been classified as HTS under IFRS 9.

The sole security classified as HTM under IAS 39 did not pass the SPPI test and has been, therefore classified as managed under the HTS business model and measured at fair value through profit or loss.

The securities classified as held for trading under IAS 39 have been allocated to the new HTS portfolio under IFRS 9, except for certain debt instruments, whose characteristics were more consistent with the HTCS portfolio.

Loans and receivables are currently managed under the HTC business model and are, therefore, measured at amortised cost.

The equity instruments classified as AFS under IAS 39 have been classified as at fair value through other comprehensive income upon FTA.

The bank defined the methods to be used to test its financial assets at amortised cost and at fair value through other comprehensive income for impairment.

It also set the parameters for determining a "significant increase in credit risk" in order to allocate its performing exposures to stage 1 or stage 2, in addition to defining models that comprise forward-looking information to be used for staging purposes and for the calculation of the 12-month ECL applicable to stage 1 and the lifetime ECL applicable to stages 2 and 3.

With reference to the stage 3 portfolio, the bank assumed it will sell bad exposures of €40 million as part of a larger sale of a total of €52 million. 60% of these exposures are secured, while the residual 40% is unsecured and have been measured upon FTA at the market prices provided by a survey carried out jointly with Banca IMI. The bank recognised the larger impairment loss of €15,242 thousand in the IFRS 9 FTA reserve and, hence, in equity.

The schedules reconciling the 2017 financial statements with the new statements introduced by Bank of Italy Circular no. 286 implementing the requirements of IFRS 9 are presented below. They match the closing balances at 31 December 2017 (under IAS 39) to the new captions reclassified under IFRS 9 and based on the bank's analyses mentioned earlier. They include the changes made upon FTA due to the new measurement requirements and the new opening balances at 1 January 2018.

The most significant changes introduced by the new classification and measurement requirements for financial assets entailed:

- the reclassification of available-for-sale debt instruments of €159,260 thousand (as per IAS 39) to financial assets at fair value through profit or loss, based on the business model under which they are managed or due to their failure to pass the SPPI test;
- the reclassification of held-to-maturity investments of €5,000 thousand to financial assets at fair value through profit or loss based on the business model under which they are managed;
- the reclassification of financial assets at fair value through profit or loss of €158,637 thousand to financial assets at fair value through other comprehensive income based on the business model under which they are managed;
- the reclassification of available-for-sale equity instruments of €13,425 thousand (under IAS 39) to the financial assets irrevocably designated at fair value through other comprehensive income that will never be reclassified to profit or loss (no "recycling").

FIRST TIME ADOPTION (FTA) OF IFRS 9 - RECONCILIATION SCHEDULES

ASSETS						
IAS 39	**IFRS 9**		**Closing balance at 31.12.2017**	**Reclassification**	**IFRS 9 adjustments**	**IFRS 9 opening balance at 1.01.2018**
10.		Cash and cash equivalents	142,052,261	- 142,052,261		-
	10	Cash and cash equivalents		142,052,261		142,052,261
20.		Financial assets held for trading	254,658,582	- 254,658,582		-
	20	Financial assets at fair value through profit or loss				
		a) held for trading		260,290,056	171,984	260,462,040
		b) designated at fair value				-
		c) mandatorily measured at fair value				-
30.		Financial assets at fair value through profit or loss	-			-
	30	Financial assets at fair value through other comprehensive income		228,548,822	- 129,485	228,419,337
40.		Available-for-sale financial assets	229,180,118	- 229,180,118		
	40	Financial assets at amortised cost				-
		a) loans and receivables with banks		18,673,971		18,673,971
		b) loans and receivables with customers		982,057,725	- 15,627,578	966,430,147
50.		Held-to-maturity investments	5,000,178	- 5,000,178		
	50	Hedging derivatives				-
60.		Loans and receivables with banks	18,673,971	- 18,673,971		-
	60	Macro-hedging adjustments to financial assets				-
70.		Loans and receivables with customers	982,057,725	- 982,057,725		-
	70	Equity investments				-
80.		Hedging derivatives	-			-
	80	Property, equipment and investment property		15,823,418		15,823,418
90.		Macro-hedging adjustments to financial assets	-			-
	90	Intangible assets		179,966		179,966
		including: - goodwill				-
100.		Equity investments	-			-
	100	Tax assets		19,143,094		24,342,925
		a) current		5,471,646		5,471,646
		b) deferred		13,671,448	5,199,831	18,871,279
110.		Property, equipment and investment property	15,823,418	- 15,823,418		-
	110	Non-current assets held for sale and disposal groups				-
120.		Intangible assets	179,966	- 179,966		-
		including: - goodwill				-
	120	Other assets		22,672,833		22,672,833
130.		Tax assets	19,143,094	- 19,143,094		-
		a) current	5,471,646	- 5,471,646		-
		b) deferred	13,671,448	- 13,671,448	-	-
140.		Non-current assets classified as held for sale and disposal groups				-
120.		Other assets	22,672,833	- 22,672,833		-
Total assets			**1,689,442,146**	**1,689,442,146**	**- 10,385,248**	**1,679,056,898**

FIRST TIME ADOPTION (FTA) OF IFRS 9 - RECONCILIATION SCHEDULES

LIABI						
IAS 39	**IFRS 9**		**Closing balance at 31.12.2017**	**Reclassification**	**IFRS 9 adjustments**	**IFRS 9 opening balance at 1.01.2018**
10.		Due to banks	3,116,465	- 3,116,465		-
	10	Financial liabilities at amortised cost		1,471,861,861		1,471,861,861
		a) due to banks		3,116,465		3,116,465
		b) due to customers		1,335,618,326		1,335,618,326
		c) securities issued		133,127,070		133,127,070
20.		Due to customers	1,335,618,326	- 1,335,618,326		-
	20	Financial liabilities held for trading		200,704		200,704
30.		Securities issued	133,127,070	- 133,127,070		-
	30	Financial liabilities designated at fair value				-
40.		Financial liabilities held for trading	200,704	- 200,704		-
	40	Hedging derivatives				-
50.		Financial liabilities at fair value through profit or loss	-			-
	50	Macro-hedging adjustments to financial liabilities (+/-)				-
60.		Hedging derivatives	-			-
	60	Tax liabilities		4,919,445	19,969	4,939,414
		a) current		3,415,086	19,969	3,435,055
		b) deferred		1,504,359		1,504,359
70.		Macro-hedging adjustments to financial liabilities (+/-)	-			-
	70	Liabilities associated with disposal groups				-
80.		Tax liabilities	4,919,445	- 4,919,445		-
		a) current	3,415,086	- 3,415,086		-
		b) deferred	1,504,359	- 1,504,359		-
	80	Other liabilities		23,935,363		23,935,363
90.		Liabilities associated with disposal groups				-
	90	Post-employment benefits		8,768,145		8,768,145
100.		Other liabilities	23,935,363	- 23,935,363		-
	100	Provisions for risks and charges:		13,271,763		13,271,763
		a) loan commitments and financial guarantees given		121,874		121,874
		b) pension and similar obligations		9,334,223		9,334,223
		c) other provisions		3,815,666		3,815,666
110.		Post-employment benefits	8,768,145	- 8,768,145		-
	110	Valuation reserves		12,884,638	- 10,405,217	2,479,421
120.		Provisions for risks and charges:	13,271,763	- 13,271,763		-
		a) pension and similar obligations	9,334,223	- 9,334,223		-
		b) other provisions	3,937,540	- 3,937,540		-
	120	Redeemable shares				-
130.		Valuation reserves	12,884,638	- 12,884,638		-
	130	Equity instruments				-
140.		Redeemable shares	-			-
	140	Reserves		74,872,925		74,872,925
150.		Equity instruments	-			-
	150	Share premium		34,660,068		34,660,068
160.		Reserves	74,872,925	- 74,872,925		-
	160	Share capital		39,241,087		39,241,087
170.		Share premium	34,660,068	- 34,660,068		-
	170	Treasury shares (-)				-
180.		Share capital	39,241,087	- 39,241,087		-
	180	Profit for the year		4,826,147		4,826,147
190.		Treasury shares (-)	-			
200.		Profit for the year	4,826,147	- 4,826,147		-
Total liabilities			**1,689,442,146**	**- 1,689,442,146**	**- 10,385,248**	**1,679,056,898**

FIRST TIME ADOPTION (FTA) OF IFRS 9 - RECONCILIATION SCHEDULES

INCOME STATEMENT						
IAS 39	**IFRS 9**		**2017 closing balance**	**Reclassification**	**IFRS 9 adjustments**	**IFRS 9 opening balance at 1.01.2018**
10.		Interest and similar income	32,519,007	- 32,519,007		-
	10	Interest and similar income		32,519,007		35,440,261
		including: interest calculated using the effective interest method		2,921,254		2,921,254
20.		Interest and similar expense	- 4,455,526	4,455,526		-
	20	Interest and similar expense		- 4,455,526		- 4,455,526
30	**30**	Net interest income	28,063,481			28,063,481
40.		Fee and commission income	23,685,793	- 23,685,793		-
	40	Fee and commission income		23,685,793		23,685,793
50.		Fee and commission expense	- 1,322,593	1,322,593		-
	50	Fee and commission expense		- 1,322,593		- 1,322,593
60.	**60**	Net fee and commission income	22,363,200			22,363,200
70.		Dividends and similar income	1,990,885	- 1,990,885		
	70	Dividends and similar income		1,990,885		1,990,885
80.		Net trading income	269,932	- 269,932		-
	80	Net trading income		269,932		269,932
90.		Net hedging income (expense)				
	90	Net hedging income (expense)				-
100.		Net gain from sales or repurchases of	5,707,370	- 5,707,370		-
		a) loans and receivables				-
		b) available-for-sale financial assets	5,717,789	- 5,717,789		-
		c) held-to-maturity investments				-
		d) financial liabilities	- 10,419	10,419		-
	100	Net gain from sales or repurchases of:		5,707,370		5,707,370
	100.a	a) financial assets at amortised cost				-
	100.b	b) financial assets at fair value through other comprehensive income		5,717,789		5,717,789
	100.c	c) financial liabilities		- 10,419		- 10,419
110.		Net gains (losses) on financial assets and liabilities at fair value through profit or loss				
	110	Net gains (losses) on other financial assets and liabilities at fair value through profit or loss				-
	110.a	a) financial assets and liabilities designated at fair value				-
	110.b	c) other financial assets mandatorily measured at fair value				-
120	**120**	Total income	58,394,868	2,921,254		61,316,122
130.		Net impairment losses on:	- 6,346,825	6,346,825		-
		a) loans and receivables	- 5,205,268	5,205,268		-
		b) available-for-sale financial assets	- 1,141,557	1,141,557		-
		c) held-to-maturity investments				-
		d) other financial transactions				
	130	Net impairment losses for credit risk associated with:		- 9,268,079		- 9,268,079
	130.a	a) financial assets at amortised cost		- 8,126,522		- 8,126,522
	130.b	b) financial assets at fair value through other comprehensive income		- 1,141,557		- 1,141,557
	140	Modification gains/losses				-
140.		Net financial income	52,048,043			52,048,043
	150	Net financial income				-
150.		Administrative expenses	- 48,606,060	48,606,060		-
		a) personnel expense	- 28,017,960	28,017,960		-
		b) other administrative expenses	- 20,588,100	20,588,100		-
	160	Administrative expenses		- 48,606,060	-	- 48,606,060
	160.a	a) personnel expense		- 28,017,960		- 28,017,960
	160.b	b) other administrative expenses		- 20,588,100		- 20,588,100
160.		Net accruals to provisions for risks and charges	- 965,899	965,899	-	-
	170	Net accruals to provisions for risks and charges		- 965,899		- 965,899
	170.a	a) loan commitments and financial guarantees given		13,019		13,019
	170.b	b) other		- 978,918		- 978,918
170.		Depreciation and net impairment losses on property, equipment and investment property	- 1,546,148	1,546,148		-
	180	Depreciation and net impairment losses on property, equipment and investment property		- 1,546,148		- 1,546,148
180.		Amortisation and net impairment losses on intangible assets	- 87,067	87,067		-
	190	Amortisation and net impairment losses on intangible assets		- 87,067		- 87,067
190.		Other operating income, net	6,429,780	- 6,429,780		-
	200	Other operating income, net		6,429,780		6,429,780
200.		Operating costs	- 44,775,394	44,775,394		-
	210	Operating costs		- 44,775,394		- 44,775,394
210.		Gains (losses) on equity investments				-
	220	Gains (losses) on equity investments				-
220.		Fair value gains (losses) on property, equipment and investment property and intangible assets				-
	230	Fair value gains (losses) on property, equipment and investment property and intangible assets				-
230.		Impairment losses on goodwill				-
	240	Impairment losses on goodwill				-
240.		Net gains on sales of investments	58,647	- 58,647		-
	250	Net gains on sales of investments		58,647		58,647
250.		Pre-tax profit from continuing operations	7,331,296	- 7,331,296		-
	260	Pre-tax profit from continuing operations		7,331,296		7,331,296
260.		Income taxes	- 2,505,149	2,505,149		-
	270	Income taxes		- 2,505,149		- 2,505,149
270.		Post-tax profit from continuing operations	4,826,147	- 4,826,147		-
	280	Post-tax profit from continuing operations		4,826,147		4,826,147
280.		Post-tax profit (loss) from discontinued operations				-
	290	Post-tax profit (loss) from discontinued operations				-
290.		Profit for the year	4,826,147	- 4,826,147	-	-
				4,826,147		**4,826,147**

The income statement reclassifications mainly relate to:

- the IFRS 9 caption “170.a - Net accruals to provisions for risks and charges - a) loan commitments and financial guarantees given” of €13 thousand which was included in the IAS 39 caption “160 - Net accruals to provisions for risks and charges”;
- interest income calculated using the effective interest method (€2,921 thousand), presented in the IFRS 9 caption “10. Interest and similar income - including: interest calculated using the effective interest method”, which was included in the IAS 39 caption “130.a Net impairment losses on: a) loans and receivables”.

15.5 – The new IFRS 16

IFRS 16 “Leases” became applicable on 1 January 2019 and superseded the existing IAS 17. It defines a lease as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

The bank has preliminarily identified the IFRS 16 FTA effects, which are the right-of-use assets of €9,591 thousand recognised as a balancing entry to the related lease liabilities for future payments.

It used a zero discount rate, which is the incremental borrowing rate of ECB’s financing transactions and, therefore, the FTA discounting effect is nil.

As provided for by the standard, the bank did not consider its short term leases and those for which the underlying asset is of low value (less than €5,000). However, their amount is immaterial.

The impact of accounting for leases under the new definition of IFRS 16 on CET1 is equal to -13 bps.

A3 – TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS

A.3.1 Reclassified financial assets: change in business model, carrying amount and interest income

Type of financial instrument (1)	Original portfolio (2)	New portfolio (3)	Reclassification date (4)	Reclassified carrying amount (5)	Pre-tax interest income for the year (6)
				Total A	-

Except for the transfers made upon IFRS 9 FTA, the bank has not reclassified its financial assets.

A.3.2. Reclassified financial assets: change in business model, fair value and impact on OCI

The bank did not reclassify its financial assets as a result of a change in its business model.

Type of financial instrument (1)	Original portfolio (2)	New portfolio (3)	Fair value at 31/12/2018 (4)	Pre-tax gains (losses) that would have been recognised in equity without the transfer	
				2018 (5)	2017 (6)
			-	-	-
			-	-	-
			-	-	-
			-	-	-
			-	-	-
			-	-	-
			-	-	-
			-	-	-
			-	-	-
			-	-	-
			-	-	-
		Total A	-	-	-

A.3.3. Reclassified financial assets: change in business model and effective interest rate

The bank did not reclassify its financial assets as a result of a change in its business model.

A4 - FAIR VALUE

Qualitative disclosure

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the principal market at the measurement date.

The fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

The fair value of financial instruments quoted on active markets is calculated using the official prices of the principal market. A financial instrument is considered to be quoted on an active market if the quoted prices are promptly and regularly available in a price list, from an operator, broker, etc. and these prices represent effective market transactions that take place regularly in normal conditions.

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

If an active market that can give the price of a financial instrument does not exist, the bank determines fair value using the following methods:

- ***Market approach:*** the bank uses prices generated by market transactions involving identical or similar assets, liabilities or a group of assets and liabilities.
- ***Discounted cash flow***: the bank estimates future cash flows expected or generated by the financial instrument which it discounts using risk free rates to which it adds the credit spread requested by the market for instruments with similar risk profiles.
  Fair value equals the sum of the discounted cash flows.
  The credit spread for performing exposures with customers is calculated considering expected losses.
  The fair value of credit-impaired exposures is their carrying amount.
- ***Similar transactions:*** the fair value of equity instruments for which market prices or market prices for identical or similar assets are not available is based on recent transactions or the unrestricted trade of the same instrument.
  If there are no recent transactions by third parties, the bank uses the transaction performed to acquire the financial instrument to calculate its fair value.

Financial products are classified as level 2 when fair value is determined by using observable inputs on an active market. They are classified as level 3 when market sources do not provide a market price and the bank applies valuation techniques used on the market and applied to its assets.
Financial instruments not measured at fair value, including loans and receivables with customers and banks and amounts due to customers and banks are not classified by fair value, which is only calculated to comply with the disclosure requirements of IFRS 13 and does not affect the financial statements or profit or loss. As these instruments are not traded, determination of their fair value is based on internal parameters not directly observable on the market as defined by IFRS 13.
The fair value of debt instruments issued by the bank and recognised at amortised cost is determined using the effective interest method.

A.4.2 Measurement processes and sensitivity

The bank has measured investments in unlisted entities, classified in the AFS portfolio and for which observable prices in an active market do not exist, as level 3-fair value. As mentioned earlier, the carrying amount was determined using the prices of the most recent transactions performed. The bank performed a sensitivity analysis for these assets, assuming a variation of -10%/+10% in equity. The following table shows the possible variations:

Investee	Equity	Investment %	Share of equity	10% decrease in equity	10% increase in equity	Carrying amount at 31/12/2018
S.W.I.F.T. - Brussels	469,330,000	0.0004%	1,724	1,552	1,897	2,529
ConfidiCoop Marche	26,258,302	1.5000%	393,875	354,487	433,262	100,000
SIA S.p.A. (former Società Servizi Bancari S.p.A.)	251,576,014	0.0340%	85,533	76,979	94,086	161,770
Alipicene S.r.l.	- 4,000	2.5000%	- 100	- 90	- 110	2,582
Fermano Leader S.c.a.r.l.	46,717	1.5000%	701	631	771	3,000
CSE Cons.Servizi Bancari S.r.l.	96,233,050	5.0000%	4,811,653	4,330,487	5,292,818	5,156,000
CARICESE S.r.l.	12,931,495	0.5000%	64,657	58,192	71,123	20,000
TOTAL	**856,371,578**		**5,358,043**	**4,822,238**	**5,893,847**	**5,445,881**

The above table shows that the fair value of the equity investments listed above (shown in the financial statements) is consistent with the inputs used for the sensitivity analysis.

A.4.3 Fair value hierarchy

IFRS 13 establishes a fair value hierarchy depending on the observability of the valuation technique inputs adopted. There are three levels:

1. Level 1: the fair value of instruments classified in this level is based on quoted prices in active markets;
2. Level 2: the fair value of instruments classified in this level is based on valuation models that use inputs that are observable on inactive/active markets for the asset or liability;
3. Level 3: the fair value of instruments classified in this level is based on valuation models used on the market and applicable to the bank's assets.

A.4.4. Other disclosures

The bank has not undertaken transactions that would require disclosure as per IFRS 13.51/93(i)/96.

Quantitative disclosure

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value level

	31/12/2018			31/12/2017		
	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit or loss	289,555	15,169	495	253,899	759	-
a) held for trading	*289,555*	*15,169*	-	*253,899*	*759*	-
b) designated at fair value	-	-	-	-	-	-
c) mandatorily measured at fair value	-	-	*495*			
2. Financial assets at fair value through other comprehensive income	65,496	7,500	6,577	199,360	24,006	5,814
3. Hedging derivatives	-	-	-	-	-	-
4. Property, equipment and investment property	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**355,051**	**22,669**	**7,072**	**453,259**	**24,765**	**5,814**
1. Financial liabilities held for trading	117	172	-	-	201	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**117**	**172**	**-**	**-**	**201**	**-**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

Financial assets classified as trading in the L2 column of the A.4.5.1 table refer to debt instruments traded on inactive markets and measured using the criteria set out in Part A, section 2 of these notes.

Financial assets classified as at fair value through OCI in the L1 column of the A.4.5.1 table refer to:

- debt instruments traded on organised markets;
- the bank’s listed equity instruments.

Financial assets classified as at fair value through OCI in the L3 column of the table A.4.5.1 refer to unlisted equity investments acquired by the bank over the last few years with carrying amounts equal to the average prices struck for the last few acquisitions. If this information is not available, they are measured at cost.

Financial assets classified as at fair value through OCI in table A.4.5.1 of the L3 column refer to unlisted equity investments and investments in companies limited by quotas (S.r.l.) acquired by the bank over the last few years with carrying amounts equal to the average prices struck for the last few acquisitions. If this information is not available, they are measured at cost.

A.4.5.2 Changes in assets measured at fair value on a recurring basis (level 3)

	Financial assets at fair value through profit or loss				Financial assets at fair value through OCI	Hedging derivatives	Property, equipment and investment property	Intangible assets
	Total	Including: a) held for trading	Including: b) designated at fair value	Including: c) mandatorily measured at fair value				
1. Opening balance	-	-	-	-	**5,814**	-	-	-
2. Increases	-	-	-	-	**1,250**	-	-	-
2.1. Purchases	-	-	-	-	1,250	-	-	-
2.2. Gains recognised in:	-	-	-	-	-	-	-	-
2.2.1. Profit or loss	-	-	-	-	-	-	-	-
- including: gains on sales	-	-	-	-	-	-	-	-
2.2.2. Equity					-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	-	-	-	-
3. Decreases	-	-	-	-	**486**	-	-	-
3.1. Sales	-	-	-	-	-	-	-	-
3.2. Repayments	-	-	-	-	-	-	-	-
3.3. Losses recognised in:	-	-	-	-	486	-	-	-
3.3.1. Profit or loss	-	-	-	-	-	-	-	-
- including: losses on sales	-	-	-	-	-	-	-	-
3.3.2. Equity					*486*	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-	-	-	-
4. Closing balance	-	-	-	-	**6,578**	-	-	-

The bank acquired an additional 1% of C.S.E Consulting S.r.l. for € 1,200 thousand in 2018.

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value level

	31/12/2018				31/12/2017			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets at amortised cost	1,208,491	223,383	-	1,057,451	1,005,732	5,061	-	1,078,085
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and disposal groups	-	-	-	-	-	-	-	-
TOTAL	**1,208,491**	**223,383**	**-**	**1,057,451**	**1,005,732**	**5,061**	**-**	**1,078,085**
1. Financial liabilities at amortised cost	1,468,698	-	-	1,469,516	1,471,861	-	-	1,472,527
2. Liabilities associated with disposal groups	-	-	-	-	-	-	-	-
TOTAL	**1,468,698**	**-**	**-**	**1,469,516**	**1,471,861**	**-**	**-**	**1,472,527**

PART B
Notes to the statement of financial position

ASSETS

Section 1 – Cash and cash equivalents – Caption 10

1.1 Cash and cash equivalents: breakdown

	31/12/2018	31/12/2017
a) Cash	23,953	20,333
b) On-demand deposits with central banks	10,013	121,720
Total	**33,966**	**142,053**

Section 2 – Financial assets held for trading – Caption 20

2.1 Financial assets held for trading: breakdown by product

	31/12/2018			31/12/2017		
	L1	L2	L3	L1	L2	L3
A. Assets						
1. Debt instruments	260,655	14,943	-	258,899	547	-
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	*260,655*	*14,943*	-	*258,899*	*547*	-
2. Equity instruments	-	-	-	-	-	-
3. OEIC units	28,852	-	-	-	-	-
4. Financing	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2. Other	-	-	-	-	-	-
Total A	**289,507**	**14,943**	**-**	**258,899**	**547**	**-**
B. Derivatives						
1. Financial derivatives:	49	226	-	-	212	-
1.1 trading	*49*	*226*	-	-	*212*	-
1.2 associated with fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 associated with fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**49**	**226**	**-**	**-**	**212**	**-**
Total (A + B)	**289,556**	**15,169**	**-**	**258,899**	**759**	**-**

The amount shown in the "Level 2" column for item "1.2 Other debt instruments" relates to the securities purchased by the bank and issued by:

- Porto Sant'Elpidio municipality (€507 thousand);
- French government bonds (€10,002 thousand);
- US government bonds (€4,434 thousand).

2.2 Financial assets held for trading: breakdown by debtor/issuer

	31/12/2018	31/12/2017
A. ASSETS		
1. Debt instruments	**275,598**	**259,447**
a) Central banks	-	-
b) Public administrations	203,583	254,010
c) Banks	38,383	2,994
d) Other financial companies	26,394	-
including: insurance companies	*1,123*	-
e) Non-financial companies	7,238	2,443
2. Equity instruments	**-**	**-**
a) Banks	-	-
b) Other financial companies	-	-
including: insurance companies	-	-
c) Non-financial companies	-	-
d) Other issuers	-	-
3. OEIC units	28,852	-
4. Financing	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
including: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total A	**304,450**	**259,447**
B. DERIVATIVES		
a) Central counterparties	49	50
b) Other	226	162
Total B	**275**	**212**
Total (A + B)	**304,725**	**259,659**

The derivatives set out in point B include:

- *interest rate swaps*;
- *interest rate caps*;
- *interest rate collars;*
- *futures;*
- *currency forwards.*

The bank has agreed a mirroring derivative with leading national banks to hedge each IRS agreed with its customers, which led to the substantial overlapping of the fair value of the derivatives.

The futures and forwards relate to the assets managed by Epsilon SGR. They are listed and their fair value is based on their market prices at the reporting date. Futures are settled daily and, hence, the related changes in the margin account made by the clearing house are recognised in profit or loss.

2.5. Other financial assets mandatorily measured at fair value: breakdown by product

	31/12/2018			31/12/2017		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	**-**	**-**	**495**	**-**	**-**	**-**
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	-	-	495	-	-	-
2. Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**
3. OEIC units.	**-**	**-**	**-**	**-**	**-**	**-**
4. Financing	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**-**	**-**	**495**	**-**	**-**	**-**

Item 1.2 shows the amount paid to the voluntary scheme (part of the Interbank Deposit Protection Fund) following the actions taken in favour of Carige S.p.A.. It is net of the impairment loss recognised in caption 110 of the income statement (€21 thousand).

2.6 Other financial assets mandatorily measured at fair value: breakdown by debtor/issuer

	31/12/2018	31/12/2017
1. Equity instruments	**-**	**-**
including: banks	-	-
including: other financial companies	-	-
including non-financial companies	-	-
2 Debt instruments	**495**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	495	-
including: insurance companies	-	-
e) Non-financial companies	-	-
3. OEIC units.	**-**	**-**
4. Financing	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
including: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**495**	**-**

Section 3 - Financial assets at fair value through other comprehensive income - Caption 30

3.1 Financial assets at fair value through other comprehensive income: breakdown by product

	31/12/2018			31/12/2017		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	64,365	-	-	169,526	16,506	-
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	*64,365*	-	-	*169,526*	*16,506*	-
2. Equity instruments	1,131	7,500	6,577	112	7,500	5,814
3. Financing	-	-	-	-	-	-
Total	**65,496**	**7,500**	**6,577**	**169,638**	**24,006**	**5,814**

Financial assets at fair value through other comprehensive income:

1. in the L1 column refer to:
    a. debt instruments traded on regulated active markets;
    b. listed equity instruments.
2. in the L2 column refer to debt instruments traded on inactive markets and measured using the criteria set out in Part A, section 2 of these notes and the investment in Bank of Italy, for which fair value can objectively be determined;
3. in the L3 column refer to equity instruments measured based on recent transactions or at cost if recent transactions do not exist.
4. the L3 column includes other listed equity investments.

3.2 Financial assets at fair value through other comprehensive income: breakdown by debtor/issuer

	31/12/2018	31/12/2017
1. Debt instruments	**64,365**	**186,032**
a) Central banks	-	-
b) Public administrations	64,365	123,544
c) Banks	-	37,898
d) Other financial companies	-	-
including: insurance companies	-	-
e) Non-financial companies	-	24,590
2. Equity instruments	**15,208**	**13,426**
a) Banks	7,578	7,612
b) Other issuers:	7,630	5,814
- other financial companies	*138*	*152*
including: insurance companies	-	-
- non-financial companies	*7,492*	*5,662*
- other	-	-
3. Financing	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
including: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**79,573**	**199,458**

3.3 Financial assets at fair value through other comprehensive income: gross amount and total impairment losses

	Gross amount				Total impairment losses			Partial/total write-offs
	Stage 1		Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
		including: instruments with a low credit risk						
Debt instruments	64,365	-	-	-	124	-	-	-
Financing	-	-	-	-	-	-	-	-
31/12/2018	**64,365**	**-**	**-**	**-**	**124**	**-**	**-**	**-**
31/12/2017	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
including: purchased or originated credit-impaired financial assets			-	-		-	-	**-**

Section 4 - Financial assets at amortised cost - Caption 40

4.1 Financial assets at amortised cost: loans and receivables with banks broken down by product

	31/12/2018						31/12/2017					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	including: purchased or originated credit-impaired	L1	L2	L3	Stages 1 and 2	Stage 3	including: purchased or originated credit-impaired	L1	L2	L3
A. Loans and receivables with central banks	**14,050**	**-**	**-**	**-**	**-**	**14,050**	**13,405**	**-**	**-**	**-**	**-**	**13,405**
1. Term deposits	-	-	-				-	-	-			
2. Minimum reserve	14,050	-	-				13,405	-	-			
3 Reverse repurchase agreements	-	-	-				-	-	-			
4. Other	-	-	-				-	-	-			
B. Loans and receivables with banks	**5,569**	**-**	**-**	**-**	**-**	**5,569**	**5,269**	**-**	**-**	**-**	**-**	**5,269**
1. Financing	5,569	-	-				5,269	-	-			
1.1 Current accounts and on-demand deposits	5,448	-	-				5,147	-	-			
1.2 Term deposits	121	-	-				122	-	-			
1.3. Other financing:	-	-	-				-	-	-			
- Reverse repurchase agreements	-	-	-				-	-	-			
- Finance leases	-	-	-				-	-	-			
- Other	-	-	-				-	-	-			
2. Debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Structured instruments	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
Total	**19,619**	**-**	**-**	**-**	**-**	**19,619**	**18,674**	**-**	**-**	**-**	**-**	**18,674**

4.2 Financial assets at amortised cost: breakdown of loans and receivables with customers by product

	31/12/2018						31/12/2017					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	including: purchased or originated credit-impaired	L1	L2	L3	Stages 1 and 2	Stage 3	including: purchased or originated credit-impaired	L1	L2	L3
Financing	**859,181**	**102,353**	**-**	**-**	**-**	**1,037,832**	**861,772**	**120,286**	**-**	**-**	**-**	**1,059,411**
1.1 Current accounts	148,551	32,007	-				161,819	35,540	-			
1.2 Reverse repurchase agreements	-	-	-				-	-	-			
1.3 Loans	577,328	59,854	-				571,414	70,612	-			
1.4. Credit cards, personal loans and salary-backed loans	24,820	1,480	-				22,729	1,981	-			
1.5 Finance leases	-	-	-				-	-	-			
1.6 Factoring	-	-	-				-	-	-			
1.7 Other financing	108,482	9,012	-				105,810	12,153	-			
Debt instruments	**227,338**	**-**	**-**	**223,383**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured instruments	-	-	-	-	-	-	-	-	-	-	-	-
1.2 Other debt instruments	227,338	-	-	223,383	-	-	-	-	-	-	-	-
Total	**1,086,519**	**102,353**	**-**	**223,383**	**-**	**1,037,832**	**861,772**	**120,286**	**-**	**-**	**-**	**1,059,411**

Item “1.7. Other” of table 4.2 includes the following (€’000):

- import/export advances of €16,431 thousand;
- advances on bills under reserve and invoices of €63,612 thousand;

- portfolio risks of €223 thousand;
- subsidies with or without repayment plans of €22,616 thousand;
- future margin accounts of €7 thousand;
- advances to managed treasury funds of €3,140 thousand.

4.4 Financial assets at amortised cost: breakdown of loans and receivables with customers by debtor/issuer

	31/12/2018			31/12/2017		
	Stages 1 and 2	Stage 3	including: purchased or originated credit impaired	Stages 1 and 2	Stage 3	including: purchased or originated credit impaired
1. Debt instruments	**227,338**	**-**	**-**	**-**	**-**	**-**
a) Public administrations	227,338	-	-	-	-	-
b) Other financial companies	-	-	-	-	-	-
including: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Financing to:	**859,180**	**102,353**	**-**	**861,771**	**120,285**	**-**
a) Public administrations	3,267	-	-	1,617	-	-
b) Other financial companies	6,521	170	-	7,266	127	-
including: insurance companies	-	-	-	-	-	-
c) Non-financial companies	500,753	68,550	-	585,428	88,602	-
d) Households	348,639	33,633	-	267,460	31,556	-
Total	**1,086,518**	**102,353**	**-**	**861,771**	**120,285**	**-**

Item 1 a) of the above table shows the government bonds classified in the HTC portfolio that the bank purchased in 2018, in line with its business model.

4.5 Financial assets at amortised cost: gross amount and total impairment losses

	Gross amount				Total impairment losses			Partial/total write-offs
	Stage 1		Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
		including: instruments with a low credit risk						
Debt instruments	**227,763**	**-**	**-**	**-**	**424**	**-**	**-**	**-**
Financing	697,291	-	189,375	197,126	3,625	4,243	94,774	859
31/12/2018	**925,054**	**-**	**189,375**	**197,126**	**4,049**	**4,243**	**94,774**	**859**
31/12/2017	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
including: purchased or originated credit-impaired financial assets			-	-		-	-	-

The caption financing of the stage 1 column includes loans and receivables with banks of €19.6 million.

Section 8 - Property, equipment and investment property - Caption 80

8.1 Property and equipment: breakdown of assets measured at cost

	31/12/2018	31/12/2017
1 Owned	**14,871**	**15,824**
a) land	4,223	4,223
b) buildings	8,628	9,559
c) furniture	1,121	939
d) electronic systems	398	429
e) other	501	674
2. Under finance lease	**-**	**-**
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
Total	**14,871**	**15,824**
including: obtained through enforcement of guarantees received	-	-

8.6 Property and equipment: changes

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	**4,223**	**34,597**	**6,174**	**6,689**	**6,772**	**58,455**
A.1 Accumulated depreciation and net impairment losses	-	25,038	5,235	6,260	6,098	42,631
A.2 Net opening balance	4,223	9,559	939	429	674	15,824
B. Increases:	**-**	**-**	**366**	**115**	**119**	**600**
B.1 Purchases	-	-	366	115	119	600
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-				-
B.7 Other increases	-	-	-	-	-	-
C. Decreases:	**-**	**931**	**184**	**146**	**292**	**1,553**
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	931	183	146	292	1,552
C.3 Impairment losses recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.4 Fair value losses recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property	-	-				-
b) non-current assets held for sale and disposal groups	-	-	-	-	-	-
C.7 Other decreases	-	-	1	-	-	1
D. Net closing balance	**4,223**	**8,628**	**1,121**	**398**	**501**	**14,871**
D.1 Accumulated depreciation and net impairment losses	-	25,969	5,418	6,406	6,390	44,183
D.2 Gross closing balance	**4,223**	**34,597**	**6,539**	**6,804**	**6,891**	**59,054**
E. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

The decreases in line C2 Depreciation of table 11.3 comply with the tax rates established by the Ministry for the Economy and Finance decree as no material wear and tear was identified during the year.

Property and equipment are held for operating purposes.

A list of the property owned by the bank is attached to these notes.

Section 9 - Intangible assets - Caption 90

9.1 Intangible assets: breakdown by asset

	31/12/2018		31/12/2017	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill		**-**		**-**
A.2 Other intangible assets	**122**	**-**	**180**	**-**
A.2.1 At cost:	122	-	180	-
a) Internally-generated	-	-	-	-
b) Other	*122*	-	*180*	-
A.2.2 At fair value:	-	-	-	-
a) Internally-generated	-	-	-	-
b) Other	-	-	-	-
Total	**122**	**-**	**180**	**-**

9.2 Intangible assets: changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		finite life	indefinite life	finite life	indefinite life	
A. Gross opening balance	**-**	**-**	**-**	**659**	**-**	**659**
A.1 Accumulated amortisation and net impairment losses	-	-	-	479	-	479
A.2 Net opening balance	-	-	-	180	-	180
B. Increases	**-**	**-**	**-**	**31**	**-**	**31**
B.1 Purchases	-	-	-	31	-	31
B.2 Increase in internally generated assets		-	-	-	-	-
B.3 Reversals of impairment losses		-	-	-	-	-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
- equity		-	-	-	-	-
- profit or loss		-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Other increases	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**89**	**-**	**89**
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses	-	-	-	89	-	89
- Amortisation		-	-	*89*	-	*89*
- Impairment losses	-	-	-	-	-	-
+ equity		-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.4 Fair value losses recognised in:	-	-	-	-	-	-
- equity		-	-	-	-	-
- profit or loss		-	-	-	-	-
C.4 Transfers to disposal groups	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other decreases	-	-	-	-	-	-
D. Net closing balance	**-**	**-**	**-**	**122**	**-**	**122**
D.1 Accumulated amortisation and net impairment losses	-	-	-	568	-	568
E. Gross closing balance	**-**	**-**	**-**	**690**	**-**	**690**
F. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

Intangible assets include program packages amortised over five years unless their user licence provides otherwise.

Section 10 - Tax assets and liabilities - Caption 100 of assets and Caption 60 of liabilities

10.1 Deferred tax assets: breakdown

	31/12/2018
Personnel expense	1,213
Administrative expenses	656
Fair value losses on HTCS securities	1,550
Impairment losses on loans and receivables	14,933
Actuarial losses on agents' termination benefits/post-employment benefits	991
Total	**19,343**

10.2 Deferred tax liabilities: breakdown

	31/12/2018
Fair value gains on bonds	-
Fair value gains on HTCS securities	120
Deferred gains	-
FTA depreciation of land	672
Post-employment benefits	235
Actuarial gains on post-employment benefits	-
Total	**1,027**

Deferred tax assets and liabilities were affected by changes in the fair value reserve of HTCS securities. Moreover, the tax legislative changes applicable to entities that apply the IFRS authorised use of the "*derivazione rafforzata*" criterion rather than the "neutrality" criterion. This substantially decreased the differences between the carrying amounts and tax bases of assets and liabilities with the resulting decrease in the related deferred tax assets and liabilities. Law no. 214/2011 introduced the provision for the conversion of deferred tax assets recognised on loans and receivables and goodwill when they satisfy the probability test. Table 10.3-bis shows the deferred tax assets covered by the law if the bank has an accounting or tax loss.

Upon transition to IFRS 9, the bank recognised additional deferred tax assets on the increase in impairment losses on financial assets at amortised cost. Since the impairment losses are recognised in equity, the deferred tax assets have also been recognised therein, as shown in table 10.5.

10.3 Changes in deferred tax assets (recognised in profit or loss)

	2018	2017
1. Opening balance	**12,303**	**13,073**
2. Increases	**538**	**427**
2.1 Deferred tax assets recognised in the year	538	427
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) reversals of impairment losses	-	-
d) other	*538*	*427*
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**-**	**1,197**
3.1 Deferred tax assets derecognised in the year	-	1,197
a) reversals	-	*1,197*
b) impairment due to non-recoverability	-	-
c) change in accounting policies	-	-
d) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
a) conversion into tax assets as per Law no. 214/2011	-	-
b) other	-	-
4. Closing balance	**12,841**	**12,303**

10.3-bis Change in deferred tax assets as per Law no. 214/2011 (recognised in profit or loss)

	2018	2017
1. Opening balance	**10,292**	**11,238**
2. Increases	**-**	**-**
3. Decreases	**-**	**946**
3.1 Reversals	-	*946*
3.2 Conversions into tax assets	-	-
a) arising on losses for the year	-	-
b) arising on tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	**10,292**	**10,292**

The above table shows the deferred tax assets related to impairment losses on loans and receivables that are convertible into tax assets should the bank record a loss for accounting or tax purposes as per Law no. 214/2011.

The bank did not make any reversals as per Budget Law no. 145 of 30 December 2018, which deferred the deductibility of impairment losses on previous loans and receivables to 2026.

10.4 Changes in deferred tax liabilities (recognised in profit or loss)

	2018	2017
1. Opening balance	**909**	**1,025**
2. Increases	**-**	**17**
2.1 Deferred tax liabilities recognised in the year	-	17
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	-	*17*
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**-**	**133**
3.1 Deferred tax liabilities derecognised in the year	-	133
a) reversals	-	*133*
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**909**	**909**

10.5 Changes in deferred tax assets (recognised in equity)

	2018	2017
1. Opening balance	**1,368**	**1,553**
2. Increases	**6,684**	**146**
2.1 Deferred tax assets recognised in the year	6,684	146
a) related to previous years	-	-
b) due to changes in accounting policies	*5,107*	-
c) other	*1,577*	*146*
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**937**	**331**
3.1 Deferred tax assets derecognised in the year	937	331
a) reversals	*937*	*331*
b) impairment due to non-recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**7,115**	**1,368**

Item 2.1 b) includes the deferred tax assets arising on the transition to IFRS 9.

10.6 Changes in deferred tax liabilities (recognised in equity)

	2018	2017
1. Opening balance	**594**	**1,172**
2. Increases	**20**	**503**
2.1 Deferred tax liabilities recognised in the year	20	503
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	*20*	*503*
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**520**	**1,081**
3.1 Deferred tax liabilities derecognised in the year	520	1,081
a) reversals	*520*	*1,081*
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**94**	**594**

10.7. Other information

Caption 130 “Tax assets: a) current” of €3,330 thousand comprises:

- IRES payments on account of €875 thousand;
- IRAP payments on account of €439 thousand;
- IRES claimed for reimbursement of €73 thousand, net of the repayments of €722 thousand and €503 thousand made on 30 December 2016 and 27 August 2018, respectively. It relates to the IRES tax asset arising on the deductibility of IRAP from personnel expense as per Law decree no. 201/2011; the related claim was presented on 18 January 2013 - the application send date for the Marche region;
- cinema tax credit of €720 thousand;
- substitute tax on account of €430 thousand on the capital gain;
- IRES assets of €687 thousand;
- tax relief for earthquake of €34 thousand;
- tax assets of €72 thousand for withholdings on savings deposits, current accounts and certificates of deposit.

Section 12 - Other assets - Caption 120

12.1 Other assets: breakdown

	31/12/2018
a) other tax assets	4,118
b) cheques drawn on other banks	379
c) cheques to be received from clearing house and drawn on customer accounts	-
d) suspense items	-
e) revenue stamps and other stamps	3
f) gold, silver and other precious metals	-
g) shortfalls, embezzlement, theft and other prior year items	-
h) items in transit	24,108
i) leasehold improvements	545
j) accrued income	82
k) prepayments	249
l) portfolio adjustment differences	-
m) other	5,494
Total	**34,978**

Specifically, in the above table:

- item h) includes transactions under settlement by the Istituto Centrale delle Banche Popolari Italiane (ICBPI) and Bank of Italy (€4,657 thousand) and items in transit to be debited to the end accounts (€19,451 thousand);
- item k) mostly consists of prepaid insurance premiums;
- item m) includes sundry amounts of €891 thousand and accrued commissions of €4,603 thousand.

LIABILITIES

Section 1 - Financial liabilities at fair value through profit or loss - Caption 10

1.1 Financial liabilities at amortised cost: breakdown of due to banks by product

	31/12/2018				31/12/2017			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**-**				**-**			
2. Due to banks	**1,373**				**3,116**			
2.1 Current accounts and on-demand deposits	1,294				3,042			
2.2 Term deposits	79				74			
2.3 Financing	-				-			
2.3.1 Repurchase agreements	-				-			
2.3.2. Other	-				-			
2.4 Commitments to repurchase own equity instruments	-				-			
2.5 Other financial liabilities	-				-			
Total	**1,373**				**3,116**			

1.2 Financial liabilities at amortised cost: breakdown of due to customers by product

	31/12/2018				31/12/2017			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and on-demand deposits	**1,374,567**				**1,323,314**			
2. Term deposits	**9,276**				**10,556**			
3. Financing	-				-			
3.1 Repurchase agreements	-				-			
3.2 Other	-				-			
4. Commitments to repurchase own equity instruments	-				-			
5. Other liabilities	3,750				1,749			
Total	**1,387,593**	**-**	**-**	**1,388,025**	**1,335,619**	**-**	**-**	**1,335,631**

1.3 Financial liabilities at amortised cost: breakdown of securities issued by product

	31/12/2018				31/12/2017			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	**-**	**-**	**-**	**-**	**35,556**	**-**	**-**	**35,617**
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	-	-	-	-	*35,556*	-	-	*35,617*
2. other securities	79,731	-	-	80,117	97,571	-	-	98,162
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	*79,731*	-	-	*80,117*	*97,571*	-	-	*98,162*
Total	**79,731**	**-**	**-**	**80,117**	**133,127**	**-**	**-**	**133,779**

Item “2.2 - other” includes the certificates of deposit issued by the bank.

Section 2 - Financial liabilities held for trading - Caption 20

2.1 Financial liabilities held for trading: breakdown by product

	31/12/2018					31/12/2017				
	Nominal or notional amount	Fair value			Fair value (*)	Nominal or notional amount	Fair value			Fair value (*)
		L1	L2	L3			L1	L2	L3	
A. Financial liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt instruments	-	-		-	-	-	-		-	-
3.1 Bonds	-	-		-	-	-	-		-	-
3.1.1 Structured	-	-	-	-		-	-	-	-	
3.1.2 Other	-	-	-	-		-	-	-	-	
3.2. Other securities	-	-		-		-	-		-	
3.2.1 Structured	-	-	-	-		-	-	-	-	
3.2.2 Other	-	-	-	-		-	-	-	-	
Total A	**-**	**-**		**-**	**-**	**-**	**-**		**-**	**-**
B. Derivatives										
1. Financial derivatives		117	172	-			-	201	-	
1.1 Trading		*117*	*172*	-			-	*201*	-	
1.2 Associated with fair value option		-	-	-			-	-	-	
1.3 Other		-	-	-			-	-	-	
2. Credit derivatives		-	-	-			-	-	-	
2.1 Trading		-	-	-			-	-	-	
2.2 Associated with fair value option		-	-	-			-	-	-	
2.3. Other		-	-	-			-	-	-	
Total B		**117**	**172**	**-**			**-**	**201**	**-**	
Total (A + B)		**117**	**172**	**-**			**-**	**201**	**-**	

Section 6 - Tax liabilities - Caption 60

6.1 Current tax liabilities

	31/12/2018
Current tax liabilities	**403**
IRES	-
IRAP	169
Stamp duty	-
Substitute tax @ 12.00%	-
Prior year tax assets	234

Section 8 - Other liabilities - Caption 80

8.1 Other liabilities: breakdown

	31/12/2018
a) Tax liabilities	3,249
b) Amounts due to social security institutions	975
c) Amounts available to customers	595
d) Third party guarantee deposits	35
d) Suspense items	-
f) Other amounts due to employees	2,692
g) Items in transit	20,208
h) Accrued expenses	8
i) Deferred income	259
j) Portfolio adjustment differences	27,270
k) Other	2,507
Total	**57,798**

Item “a) Tax liabilities” refers to tax withholdings to be paid and amounts collected on behalf of customers to be transferred to the tax authorities.

Item “k) Other” includes amounts due to suppliers (€583 thousand), sundry items (€1,829 thousand) and contributions due to bodies (€94 thousand).

Section 9 – Post-employment benefits – Caption 90

9.1 Post-employment benefits: changes

	2018	2017
A. Opening balance	**8,768**	**9,208**
B. Increases	**74**	**99**
B.1 Accruals	72	74
B.2 Other increases	2	25
C. Decreases	**837**	**539**
C.1 Payments	807	509
C.2 Other decreases	30	30
D. Closing balance	**8,005**	**8,768**
Total	**8,005**	**8,768**

In 2012, the bank changed the method used to recognise actuarial gains and losses from the corridor approach to an approach entailing their immediate recognition in other comprehensive income. Therefore, the actuarial losses of €2 thousand determined by the actuary are recognised in point "B.2 Other increases". Point B.1 shows the annual interest cost, as calculated by the actuary.

9.2 Other information:

	Amount
Interest cost	72
including: revaluations	*72*
Actuarial loss	2
Total	**74**

Since 1 January 2007, post-employment benefits are transferred to either the INPS treasury fund or a supplementary pension fund. Therefore, the actuarial calculation considers the accrued benefits, i.e., the total liability for each employee. The calculation is based on demographic and economic assumptions already used in 2011. The bank eliminated the corridor approach in 2012 and recognised the actuarial loss immediately in equity, thus adopting one of the effects of the revised IAS 19 (2011) early.

Reference was made to the yield on AA corporate bonds at the reporting date for the financial assumptions. The bank recognised the actuarial loss of €2 thousand in other comprehensive income.

Section 10 - Provisions for risks and charges - Caption 100

10.1 Provisions for risks and charges: breakdown

	31/12/2018	31/12/2017
1. Provisions for credit risk associated with loan commitments and financial guarantees given	152	122
2. Provisions for other commitments and other guarantees given	-	-
3. Internal pension funds	8,362	9,334
4. Other provisions	2,249	3,816
4.1 legal and tax disputes	*-*	*-*
4.2 personnel expense	*-*	*-*
4.3 other	*2,249*	*3,816*
Total	**10,763**	**13,272**

10.2 Provisions for risks and charges: changes

	Provisions for other commitments and other guarantees given	Pension funds	Other provisions	Total
A. Opening balance	**122**	**9,334**	**3,816**	**13,272**
B. Increases	**30**	**142**	**191**	**363**
B.1 Accruals	30	142	191	363
B.2 Discounting	-	-	-	-
B.3 Changes due to variations in discount rate	-	-	-	-
B.4 Other increases	-	-	-	-
C. Decreases	**-**	**1,114**	**1,758**	**2,872**
C.1 Utilisations	-	654	1,758	2,412
C.2 Changes due to variations in discount rate	-	-	-	-
C.3 Other decreases	-	460	-	460
D. Closing balance	**152**	**8,362**	**2,249**	**10,763**

Utilisation of these provisions amounted to €1,758 thousand and referred to the settlement of legal disputes recognised in caption 170/b of the income statement.

Other provisions of €2,249 thousand, shown in table 12.1, may be analysed as follows by type of litigation:

- Civil litigation	1,829,423
- Claw-back claims	180,000
- Other charges	140,000
- Labour disputes	100,000
- **Total**	**2,249,423**

As can be seen, the larger accruals are made for civil litigation, partly related to third party claims about the charging of compound interest or interest exceeding the legal rate.

Risks for ongoing proceedings about securities trading are modest, also given the:
1) limited number of legal actions: seven at the reporting date;
2) generally modest amounts involved;
3) rulings at all levels in the bank's favour.
The accrual for claw-back claims refers to 4 customers under bankruptcy proceedings for which the court ruling had not been handed down at the reporting date.
Just one dispute involves two employees due to a claim forms received by the bank for the repayment of grants for training to INPS. The first level judgement was against the bank and the appeal hearing is set for 14 March 2019.

The bank has considered the typical risks of the banking sector and a prudent interpretation of the reference regulations when measuring and determining the various provisions.

It regularly reviews contingent liabilities for which specific provisions have not been made and which are treated like the recognised liabilities. These relate to obligations that are possible only or present obligations for which:

a. it is not certain whether an outflow of resources will be necessary;
b. the amount cannot be determined.

The case in point b is infrequent and relates to just one instance.

Conversely, the case in point a. is more frequent and the probability that an outflow of resources will be necessary depends on events that suggest that the probability of a negative outcome is very unlikely or impossible.

Specifically, it includes legal disputes existing at the reporting date, for which a negative outcome is improbable based on:

(i) the legal advisors' opinion;
(ii) rulings in the bank's favour by earlier court hearings.

Based on the probability of contingent or actual liabilities presented in the 2018 financial statements and in table 12.2, the situation is as follows:

Type of risk	Contingent liability		Bonds	
	Petitum	*Accrual*	*Petitum*	*Accrual*
Legal disputes	4,499,034	0	47,918,963	1,829,423
Claw-back claims	431,022	0	733,940	180,000
Labour disputes	12,000	0	627,000	100,000
Other charges	0	0	140,000	140,000
Total	**4,942,056**	**0**	**49,419,903**	**2,249,423**

Contingent liabilities for legal disputes refer to the following categories:

a) repudiation of false drawers' signatures on credit instruments;
b) trading of bonds;
c) compound interest or interest exceeding the legal rate;
d) other claims for damage compensation.

Contingent liabilities for labour disputes refer to claims made by individual employees that the competent judges usually disallow.

10.3. Provisions for credit risk associated with loan commitments and financial guarantees given

	Provisions for credit risk associated with loan commitments and financial guarantees given			
	Stage 1	Stage 2	Stage 3	Total
Loan commitments	30	20	-	50
Financial guarantees given	64	38	-	102
Total	**94**	**58**	**-**	**152**

10.5 Defined benefit internal pension plans

The bank's pension fund ("*Fondo d'integrazione delle pensioni dell'assicurazione obbligatorio per l'invalidità, la vecchiaia ed i superstiti gestita dall'INPS per il Personale - ruolo credito - della Cassa di Risparmio di Fermo*"), included in the special section III as number 9107 of the Pension funds register held by COVIP (the Italian pension regulator) and recognised in caption 120-a on the liabilities side of the statement of financial position, is regulated by the Agreement of 4 December 1990, Legislative decree no. 124/93, the new legislative framework as defined by Law no. 335 of 8 August 1995 and the measure attached to the 1998 Finance Act (Law no. 449/12) as well as the agreement of 18 October 2000 for the fund's transformation by setting up a defined contribution part from 1 January 2001.

The fund's object is to provide its beneficiaries and their surviving family members with a supplementary pension in addition to that provided by INPS.

Following the aforesaid transformation agreement, the fund covers the bank's employees that had retired at 31 December 2000 or their surviving family members. The bank pays in a contribution in order to ensure its actuarial balance.

At the reporting date, the fund had 116 beneficiaries, including those with zero annuities as shown in the following table:

Gender	Direct	Indirect or reversible	Total
Women	7	49	**56**
Men	60	0	**60**
Total	**67**	**49**	**116**

The actuarial calculations were based on a projection of the individual beneficiaries' positions at the reporting date. This projection was extended until the complete extinguishment of the obligations considering a hypothetical system based on:

1. legislative parameters;
2. demographic parameters;
3. economic parameters;
4. financial parameters.

The generation RG 48 chart prepared by the State General Accounting Office was used for the demographic parameters while the estimates usually used for INPS simulations were used for the family beneficiaries.

An annual increase in prices of 2.00% over the long term was assumed for the economic parameters. The effects of the substantial elimination of the equalisation clause were estimated by considering the "equal grade of service". The equalisation rates using the assumed inflation rates were:

BRACKET	RATE
Up to 3 times the minimum treatment	2.00%
From 3 to 5 times the minimum treatment	1.80%
More than 5 times the minimum treatment	1.50%

With respect to the financial parameters, the current situation was assessed, characterised by the illiquid corporate bond markets.

Therefore, reference was made to the yield curve for AA corporate bonds at the reporting date, without prejudice to the other technical assumptions.

The average present value appraised by the relevant expert of the cost of integrating and substituting the pension plan for the 116 beneficiaries is in line with the amount recognised in the financial statements.

Technical accounts at 31/12/2018	
Average present value - immediate charges	8,362
Average present value - total charges	8,362
Mathematical reserve at 31/12/2017	9,334
Equity at 31/12/2018	8,842
Mathematical provision	8,362
TECHNICAL SURPLUS	**480**
Calculation of actuarial gains/losses for IFRS purposes	
Mathematical provision at 31 December 2017	9,334
Interest cost	142
Service cost	0
Payments	-654
Accumulated net actuarial gain at 31/12/2018	**-460**

The bank has replaced the corridor approach with the immediate recognition of actuarial gains or losses in other comprehensive income. The interest cost recognised in profit or loss amounted to €142 thousand and the actuarial gain to €460 thousand, recognised in other comprehensive income.

Section 12 – Equity – Captions 110, 130, 140, 150, 160, 170 and 180

12.1 “Share capital” and “Treasury shares”: breakdown

	Amount
Share capital	39,241
Total	**39,241**

The fully subscribed and paid-in share capital consists of 759,750 shares with a nominal amount of €51.65 for a total €39,241,087.50.

The bank’s shareholders are:

- Fondazione Cassa di Risparmio di Fermo, with 506,500 ordinary shares equal to an investment of 66.67%;
- Intesa Sanpaolo S.p.A., with 253,250 ordinary shares equal to an investment of 33.33%.

The caption did not undergo any change during the year.

12.2 Share capital - number of shares: changes

	Ordinary	Other
A. Opening balance	**759,750**	**-**
- fully paid-in	*759,750*	-
- not fully paid-in	-	-
A.1 Treasury shares (-)	-	-
A.2 Outstanding shares: opening balance	**759,750**	**-**
B. Increases	**-**	**-**
B.1 New issues	-	-
- against consideration:	-	-
- business combinations	-	-
- bond conversions	-	-
- exercise of warrants	-	-
- other	-	-
- bonus issues:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other increases	-	-
C. Decreases	**-**	**-**
C.1 Cancellations	-	-
C.2 Repurchases of treasury shares	-	-
C3 Disposals of equity investments	-	-
C.4 Other decreases	-	-
D. Outstanding shares: closing balance	**-**	**-**
D.1 Treasury shares (+)	-	-
D.2 Closing balance	-	-
- fully paid-in	*759,750*	-
- not fully paid-in	-	-

12.4 Income-related reserves: other information

	LEGAL RESERVE	STATUTORY RESERVE	OTHER
OPENING BALANCE	**18,364**	**53,239**	**3,270**
INCREASES	**482**	**2,064**	**-**
Allocation of profits	482	2,064	-
DECREASES	**-**	**-**	**10,405**
Other changes (FTA reserve)	-	-	10,405
CLOSING BALANCE	**18,846**	**55,303**	**- 7,135**

The legal reserve was increased by the allocation of 10% of the profit for the year as provided for by article 24 of the by-laws, regardless of the legal requirements for it to be equal to one fifth of the bank's share capital as required by article 2430 of the Italian Civil Code.

It exceeds one fifth of the bank's share capital by €10,998 thousand.

The statutory reserve includes:

- 15% of the profit for the year as provided for by article 24 of the by-laws;
- reclassification of the income-related reserves for €15,200 thousand as determined during IFRS FTA of 1 January 2005.

The other reserves comprise:

- the contribution reserve of €6,130 thousand as per Law no. 218/90, net of the IFRS FTA reserve of -€2,860 thousand;
- IFRS 9 FTA reserve of 1 January 2018 of -€10,405 thousand.

12.4.1 Equity: breakdown, availability and distributability of the different captions

	Amount	Possible use (1)	Available portion	Summary of use in the last 3 years (2)	
				To cover losses	For other purposes
Share capital	39,241,087.50				
Equity-related reserves:					
Contribution reserve	15,121,767.94	A,B,C	15,121,767.94		
Revaluation reserve	6,129,826.94	A,B,C	6,129,826.94		
Share premium (3)	34,660,068.07	A,B,C	34,660,068.07		
Income-related reserves:					
Legal reserve	18,846,066.72	B	10,997,849.22		
Statutory reserve	55,303,995.43	B	-		
Other reserves:					
FTA reserve	(13,265,284.23)		-		
Fair value reserve (HTCS securities)	(2,087,059.75)		-		
Actuarial reserve	(2,610,951.15)		-		
Retained earnings	-		-		
Total	**151,339,517.47**		**66,909,512.17**	**-**	**-**
Undistributable portion (4)			667,038.43		
Remaining distributable portion			66,242,473.74		

in Euros

Key:

A = share capital increase
B = to cover losses
C = dividend distribution

Note:

(1) = Except for additional constraints imposed by by-laws

(2) = Utilisations are shown from 2000 as comparative previous years' data are unavailable

(3) = Pursuant to article 2431 of the Italian Civil Code, the entire reserve can only be distributed when the legal reserve has reached the threshold set by article 2430 of the Italian Civil Code.

(4) = The portion that cannot be distributed due to: the translation reserve, the reserve for equity-accounted investees, the reserve for departures as per article 2413.4 of the Italian Civil Code and the part allocated to cover unamortised deferred costs as per article 2426.5 of the Italian Civil Code.

12.4.2 Proposed allocation of the profit for the year

PROFIT FOR THE YEAR			**1,570,685.00**
Reserves as per article 6 of Legislative decree no. 38/2005:			
fair value gains recognised in profit or loss (to be recognised in the relevant reserve)			-
other			-
Unavailable profits			-
DISTRIBUTABLE PROFIT FOR THE YEAR			**1,570,685.00**
10% to the legal reserve			**157,069.00**
15% to the extraordinary reserve			**235,603.00**
- **Shareholder remuneration**: dividend per share	**1.00**		
- Shares held by Banca Intesa S.p.A.	*253,250.00*	*253,250.00*	
- Shares held by Fondazione Cassa di Risparmio di Fermo	*506,500.00*	*506,500.00*	**759,750.00**
Dividends to be distributed			
Remainder to the extraordinary reserve			**418,263.00**
Summary of allocation			
To the legal reserve		157,069.00	**810,935.00**
To the extraordinary reserve		653,866.00	**759,750.00**
Total increase in equity			
Dividends			
TOTAL DISTRIBUTABLE PROFIT			**1,570,685.00**

The profit for the year to be allocated amounts to €1,570,685.

Pursuant to the relevant laws and article 25 of the by-laws, we propose it be allocated as follows:

- to the shareholders as a unit dividend of €1.00;

- 10% to the legal reserve, i.e., €157,069;

- 653,866 to the extraordinary reserve.

After the allocation set out above pursuant to article 25 of the by-laws, the legal reserve, which amounted to €18,846,067 at 31 December 2018, will amount to €19,003,136 exceeding one fifth of the share capital as per article 2430 of the Italian Civil Code by €11,154,918.

OTHER INFORMATION

1. Loan commitments and financial guarantees given other than those at fair value

	Nominal amount of loan commitments and financial guarantees given			31/12/2018	31/12/2017
	(Stage 1)	(Stage 2)	(Stage 3)		
Loan commitments	**459,177**	**47,795**	**7,119**	**514,091**	**-**
a) Central banks	-	-	-	-	-
b) Public administrations	41,081.00	-	-	41,081	-
c) Banks	3,428.00	-	-	3,428	-
d) Other financial companies	6,613	270	1	6,884	-
e) Non-financial companies	360,331	37,452	6,676	404,459	-
f) Households	47,724	10,073	442	58,239	-
Financial guarantees given	**20,703**	**3,611**	**480**	**24,794**	**4,377**
a) Central banks	-	-	-	-	-
b) Public administrations	21.00	-	-	21	21
c) Banks	4,354	-	-	4,354	4,354
d) Other financial companies	1,487	445	460	2,392	-
e) Non-financial companies	12,969	2,922	16	15,907	2
f) Households	1,872	244	4	2,120	-

2. Other commitments and other guarantees given

	Nominal amount	
	31/12/2018	31/12/2017
Other guarantees given	**-**	**-**
including: non-performing	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Other commitments	**-**	**-**
including: non-performing		
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-

3. Assets pledged as guarantee for liabilities and commitments

	31/12/2018	31/12/2017
1. Financial assets at fair value through profit or loss	11	10
2. Financial assets at fair value through other comprehensive income	-	-
3. Financial assets at amortised cost	54,340	5,000
4. Property, equipment and investment property	-	-
including: held as inventories	-	-

Table 3 shows the securities pledged as guarantee for the bank's liabilities:

- transactions tied to payment of pensions by INPS for €11 thousand;
- transactions tied to the ECB's monetary policies for €54,340 thousand.

5. Management and trading on behalf of third parties

Service	Amount
1. Execution of customer orders	**-**
a) Purchases	-
1. settled	-
2. unsettled	-
b) Sales	-
1. settled	-
2. unsettled	-
2. Asset management	**-**
a) individual	-
b) collective	-
3. Securities custody and administration	**1,755,291**
a) third party securities held as part of depository bank services (excluding asset management)	-
1. securities issued by the reporting entity	-
2. other securities	-
b) third party securities on deposit (excluding asset management): other	632,079
1. securities issued by the reporting entity	*26,161*
2. other securities	*605,918*
c) third party securities deposited with third parties	597,990
d) securities owned by the bank deposited with third parties	525,222
4. Other	**-**

10. Credit collection on behalf of third parties: adjustments

	2018	2017
a) “debit” adjustments	**321,113**	**325,512**
1) bank joint accounts	78,019	74,559
2) central portfolio	241,714	249,092
3) cash	274	510
4) other accounts	1,106	1,351
b) “credit” adjustments	**348,381**	**326,436**
1) bank joint accounts	83,525	78,679
2) transferors of bills and documents	264,479	247,430
3) other accounts	377	327
DIFFERENCE	**27,268**	**924**

The difference of €27,268 thousand is shown under caption 80 “Other liabilities” in the statement of financial position.

PART C
Notes to the income statement

Section 1 – Interest – Captions 10 and 20

1.1 Interest and similar income: breakdown

	Debt instruments	Financing	Other	2018	2017
1. Financial assets at fair value through profit or loss:	2,255	-	-	2,255	2,602
1.1 Held for trading	2,255	-	-	2,255	2,602
1.2 Designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	-	-	-	-	-
2. Financial assets at fair value through other comprehensive income	862	-		862	2,155
3. Financial assets at amortised cost:	349	28,642		28,991	27,747
3.1 Loans and receivables with banks	-	78		78	26
3.2 Loans and receivables with customers	349	28,564		28,913	27,721
4. Hedging derivatives			-	-	-
5. Other assets			5	5	15
6. Financial liabilities				-	-
Total	**3,466**	**28,642**	**5**	**32,113**	**32,519**
- including: interest income on credit-impaired exposures	-	2,639	-	2,639	3,394

Interest accrued on the following credit-impaired exposures during the year:

1. Unlikely to pay (€2,368 thousand);
2. Past due/overdrawn by more than 90 days (€94 thousand).

1.2 Interest and similar income: other information

1.2.1 Interest income on foreign currency financial assets

	2018	2017
1.3.1 Interest income on foreign currency financial assets	215	414

1.3 Interest and similar expense: breakdown

	Financial liabilities	Securities	Other	2018	2017
1.Financial liabilities at amortised cost	- 2,218	- 717	-	- 2,935	-
1.1. Due to central banks	-		-	-	-
1.2. Due to banks	- 17		-	- 17	-
1.3 Due to customers	- 2,201		-	- 2,201	-
1.4 Securities issued		- 717	-	- 717	-
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions			-	-	-
5. Hedging derivatives			-		-
6. Financial assets				- 328	-
Total	**- 2,218**	**- 717**	**-**	**- 3,263**	**-**

1.4 Interest and similar expense: other information

1.4.1 Interest expense on foreign currency liabilities

	2018	2017
1.4.1 Interest expense on foreign currency liabilities	- 37	- 12

Section 2 – Fees and commissions - Captions 40 and 50

2.1 Fee and commission income: breakdown

	2018	2017
a) guarantees received	**249**	**298**
b) credit derivatives	**-**	**-**
c) management, brokerage and consultancy services:	**9,949**	**8,043**
1. trading in financial instruments	96	128
2. foreign currency transactions	105	105
3. individual asset management	-	-
4. securities custody and administration	81	95
5. depository services	-	-
6. securities placement	4,663	4,196
7. order collection and transmission	292	337
8. consultancy services	-	-
8.1. concerning investments	-	-
8.2. concerning financial structure	-	-
9. distribution of third party services	4,712	3,182
9.1. asset management	*362*	*376*
9.1.1. individual	*143*	*162*
9.1.2. collective	*219*	*214*
9.2. insurance products	*3,117*	*1,698*
9.3. other products	*1,233*	*1,108*
d) collection and payment services	**3,001**	**2,902**
e) servicing services for securitisations	**-**	**-**
f) services for factoring transactions	**-**	**-**
g) tax collection services	**-**	**-**
h) management of multilateral trading systems	**-**	**-**
i) keeping and management of current accounts	**9,392**	**9,304**
j) other services	**3,306**	**3,140**
Total	**25,897**	**23,687**

The balance shown as letter “j) other services” in the above table includes:[1]

Loan preliminary investigation fees	743
Financing fees	383
Bancomat (debit card) and home banking fees	823
Other commissions	1,357

[1] €’000

2.2 Fee and commission income: product and service distribution channels

	2018	2017
a) own branches:	**9,375**	**7,378**
1. asset management	-	-
2. securities placement	4,663	4,196
3. third party services and products	4,712	3,182
b) off-premises distribution:	**-**	**-**
1. asset management	-	-
2. securities placement	-	-
3. third party services and products	-	-
c) other distribution channels:	**-**	**-**
1. asset management	-	-
2. securities placement	-	-
3. third party services and products	-	-

2.3 Fee and commission expense: breakdown

	2018	2017
a) guarantees received	**- 29**	**- 22**
b) credit derivatives	**-**	**-**
c) management and brokerage services:	**- 349**	**- 370**
1. trading in financial instruments	- 104	- 140
2. foreign currency transactions	-	-
3. asset management:	- 203	- 178
3.1 own portfolio	*-*	*-*
3.2 third party portfolios	*- 203*	*- 178*
4. securities custody and administration	- 42	- 52
5. placement of financial instruments	-	-
6. off-premises distribution of securities, products and services	-	-
d) collection and payment services	**- 955**	**- 882**
e) other services	**- 75**	**- 49**
Total	**- 1,408**	**- 1,323**

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

	2018		2017	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	-	959	-	-
B. Other financial assets mandatorily measured at fair value	-	-	-	833
C. Financial assets at fair value through other comprehensive income	768	-	1,158	-
D. Equity investments	-	-	-	-
Total	**768**	**959**	**1,158**	**833**

Section 4 – Net trading income (expense) - Caption 80

4.1 Net trading income: breakdown

	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net gain [(A+B) – (C+D)]
1. Financial assets held for trading	**241**	**900**	**4,824**	**1,241**	**- 4,924**
1.1 Debt instruments	241	846	3,888	872	- 3,673
1.2 Equity instruments	-	52	66	369	- 383
1.3 OEIC units	-	2	870	-	- 868
1.4 Financing	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt instruments	-	-	-	-	-
2.2 Financial liabilities	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange gains					**165**
4. Derivatives	**15,838**	**-**	**17,400**	**-**	**- 1,562**
Financial derivatives:	15,838	-	17,400	-	- 1,562
- On debt securities and interest rates	15,838	-	17,400	-	- 1,562
- On equity instruments and equity indexes	-	-	-	-	-
- On currencies and gold					-
- Other	-	-	-	-	-
Credit derivatives	-	-	-	-	-
including: natural hedges associated with the fair value option					-
Total	**16,079**	**900**	**22,224**	**1,241**	**- 6,321**

Currency: Costs, Revenue and Inventories

EXPENSES AND LOSSES:			REVENUE AND PROFITS:		
	2018	**2017**		**2018**	**2017**
A) Opening balance in foreign currency	868	419	E) Revenue from currency sales	102,101	160,260
B) Cost of purchasing currency	102,182	160,390	F) Closing balance	903	868
D) Total costs	**103,050**	**160,809**	**H) Total revenue**	**103,004**	**161,128**

SUMMARY:		
	2018	**2017**
(+) Total revenue	***103,004***	***161,128***
(-) Total costs	***- 103,050***	***- 160,809***
(+) Currency fees	***48***	***45***
(-) Losses (+) gains on currencies	***41***	***-***
(-) Impairment losses (+) gains on	***122***	***- 507***
(-) Impairment losses (+) gains on	***-***	***482***
Unrealised exchange gains	***165***	***339***

The purchase costs and income from sales relate to foreign currency dealt in by the bank during the year, except for participating currencies and Euro captions.

Section 6 - Gain (loss) from sales/repurchases - Caption 100

6.1 Gain (loss) from sales/repurchases: breakdown

	2018			2017		
	Gains	Losses	Net gain	Gains	Losses	Net gain
Financial assets						
1. Financial assets at amortised cost:	-	-	-	-	-	-
1.1 Loans and receivables with banks	-	-	-	-	-	-
1.2 Loans and receivables with customers	-	-	-	-	-	-
2. Financial assets at fair value through other comprehensive income	3,781	-	3,781	4,777	2,128	2,649
2.1 Debt instruments	*3,781*	-	3,781	*4,777*	*2,128*	2,649
2.2 Financing	-	-	-	-	-	-
Total assets	**3,781**	**-**	**3,781**	**4,777**	**2,128**	**2,649**
Financial liabilities at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	11	- 11
Total liabilities	**-**	**-**	**-**	**-**	**11**	**- 11**

Section 7 - Net gains (losses) on financial assets and liabilities at fair value through profit or loss - Caption 110

7.2 Net gains (losses) on other financial assets and liabilities at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

	Unrealised gains (A)	Realised gains (B)	Unrealised losses (C)	Realised losses (D)	Net gains [(A+B) – (C+D)]
1. Financial assets	**-**	**-**	**21**	**-**	**- 21**
1.1 Debt instruments	-	-	21	-	- 21
1.2 Equity instruments	-	-	-	-	-
1.3 OEIC units	-	-	-	-	-
1.4 Financing	-	-	-	-	-
2. Foreign currency financial assets: Exchange gains (losses)					**-**
Total	**-**	**-**	**21**	**-**	**- 21**

Item 1.1 of column C refers to the impairment loss on the amount paid to the voluntary scheme following the actions taken in favour of Carige S.p.A..

Section 8 – Net impairment gains (losses) for credit risk - Caption 130

8.1 Net impairment losses for credit risk related to financial assets at amortised cost: breakdown

	Impairment losses (1)			Impairment gains (2)		2018	2017
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		Write-offs	Other				
A. Loans and receivables	**-**			**-**	**-**	**-**	**-**
- Financing	-	-	-	-	-	-	-
- Debt instruments	-	-	-	-	-	-	-
Including: purchased or originated credit-impaired	-	-	-	-	-	-	
B. Loans and receivables	**- 575**	**- 534**	**- 11,499**	**536**	**4,567**	**- 7,505**	**-**
- Financing	- 151	- 534	- 11,499	536	4,567	- 7,081	-
- Debt instruments	- 424	-	-	-	-	- 424	-
Including: purchased or originated credit-impaired	-	-	-	-	-	-	-
C. Total	**- 575**	**- 534**	**- 11,499**	**536**	**4,567**	**- 7,505**	**-**

8.2 Net impairment losses for credit risk related to financial assets at fair value through other comprehensive income: breakdown

	Impairment losses (1)			Impairment gains (2)		2018	2017
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		Write-offs	Other				
- **Debt instruments**	**- 124**	**-**	**-**	**-**	**-**	**- 124**	**-**
- **Financing**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- With customers	-	-	-	-	-	-	-
- With banks	-	-	-	-	-	-	
Including: purchased or originated credit-impaired	-	-	-	-	-	-	
D. Total	**- 124**	**-**	**-**	**-**	**-**	**- 124**	**-**

Section 9 – Modification gains/losses - Caption 140

9.1 Modification gains/losses: breakdown

	2018	2017
9.1 Modification gains/losses: breakdown	-	-

Section 10 - Administrative expenses – Caption 160

10.1 Personnel expense: breakdown

	2018	2017
- **Employees**	**- 27,132**	**- 27,090**
- wages and salaries	- 19,050	- 18,909
- social security contributions	- 5,042	- 5,116
- post-employment benefits	-	-
- pension costs	-	-
- accrual for post-employment benefits	- 1,136	- 1,141
- accrual for pension and similar provisions:	- 142	- 142
• *defined contribution plans*	-	-
• *defined benefit plans*	*- 142*	*- 142*
- payments to external supplementary pension funds	- 745	- 759
• *defined contribution plans*	*- 745*	*- 759*
• *defined benefit plans*	-	-
- costs of share-based payment plans	-	-
- other employee benefits	- 1,017	- 1,023
- **Other personnel**	**-**	**-**
- **Directors and statutory auditors**	**- 950**	**- 928**
- **Retired personnel**	**-**	**-**
- **Cost recoveries for personnel seconded to other companies**	**-**	**-**
- **Cost reimbursements for personnel seconded to the bank**	**-**	**-**
Total	**- 28,082**	**- 28,018**

Item 3 of the table includes the statutory auditors' fees and the directors' insurance policies.

Wages and salaries: bonuses

	2018	2017
a) wages and salaries	- 19,050	- 18,909
- including: bonuses	*798*	*1,166*

10.2 Average number of employees per category

	31/12/2018	2018 average	31/12/2017
- Employees	**378**	**370**	**388**
a) managers	1	2	2
b) junior managers	102	104	106
- including: 3rd and 4th level	*41*	*42*	*43*
c) other employees (including cleaning staff)	275	264	280
- including: 3rd professional group	*272*	*261*	*276*
- including: 2nd professional group	*2*	*3*	*3*
- including: cleaning staff	*1*	*1*	*1*
- Other personnel	**10**	**10**	**10**

The average was determined considering the part-time personnel for 50%.

10.3 Internal defined benefit pension plans: costs and revenue

	2018	2017
Remuneration on supplementary pension fund - interest cost	142	142

10.4 Other employee benefits

	2018	2017
Other employee benefits	- 1,017	- 1,023

This caption mainly comprises training costs of €130 thousand, life, accident and health insurance policies of €357 thousand and lunch vouchers of €467 thousand.

10.5 Other administrative expenses: breakdown

	2018	2017
1 - credit collection legal fees	- 1,489	- 1,971
2 - sundry and technical legal consultancy	- 1,192	- 1,115
3 - maintenance, repairs, conversions	- 1,095	- 1,137
4 - lease of premises	- 977	- 980
5 - cleaning services	- 581	- 547
6 - rental of machinery and data transmission lines	- 1,302	- 1,397
7 - security and security transportation	- 571	- 530
8 - lighting and heating	- 466	- 477
9 - stationery and printed matter	- 186	- 188
10 - postal, telegraph, telex, telephone	- 393	- 384
11 - insurance	- 328	- 342
12 - advertising	- 342	- 377
13 - subscriptions and purchases of publications	- 83	- 85
14 - third party service costs	- 3,970	- 3,753
15 - transportation and relocation	- 265	- 260
16 - membership fees	- 276	- 258
17 - contribution to the National Resolution Fund and the Interbank Guarantee Deposit Fund	- 1,238	- 1,048
18 - car leases	- 100	- 67
19 - information and Chamber of Commerce business register file searches	- 619	- 635
20 - other	- 275	- 295
Subtotal of other administrative expenses	**- 15,748**	**- 15,846**
Indirect taxes and duties		
1 - stamp duty	- 3,535	- 3,639
2 - own municipal tax	- 353	- 354
3 - other	- 556	- 749
Total indirect taxes and duties	**- 4,444**	**- 4,742**
Total other administrative expenses	**- 20,192**	**- 20,588**

"Maintenance, repair and conversions" relate to work performed to make the buildings usable. Therefore, they have been expensed even when the amounts involved were significant.

As shown in the table at the end of this section, the fees due to KPMG S.p.A. for its services are as follows:

- statutory audit of the annual financial statements €181,145;
- attestation services due to inclusion of the profit for the year in own funds €11,590;
- translation of financial statements into English €12,200;
- signing of the tax returns €5,200;
- audit procedures in connection with FTS of IFRS 9/IFRS 15 €23,180.

In addition, fees for services paid to other entities of the KPMG network are shown below:
- contractual assistance provided by “KStudio Associato” €26,644.

These fees include VAT and reimbursement of out-of-pocket expenses.

Service	Service provider	Fees
Statutory audit	KPMG S.p.A.	181,145
Attestation services	KPMG S.p.A.	11,590
Other services	KPMG S.p.A.	40,580
Other services	KStudio Associato	26,644
TOTAL		**259,959**

Section 11 - Net accruals to provisions for risks and charges - Caption 170

11.1 Net accruals for credit risk associated with loan commitments and financial guarantees given

	2018
Loan commitments:	**-**
- type 1	-
- type 2	-
Financial guarantees given:	**152**
- type 1	152
- type 2	-
Total	**152**

11.3 Net accruals to other provisions: breakdown

	2018
1- accrual for legal disputes	186
2- accrual for claw-back claims	5
3 - other	30
Total accruals	**221**
4 - utilisation to settle legal disputes	- 1,757
Total utilisations	**- 1,757**
Total net accruals	**- 1,536**

The utilisations of these provisions are recognised in caption 170/B of the income statement.

Section 12 - Depreciation and net impairment losses on property, equipment and investment property - Caption 180

12.1 Depreciation and net impairment losses on property, equipment and investment property: breakdown

	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Carrying amount (a + b - c)
A. Property, equipment and investment property	- 1,552	-	-	- 1,552
A.1 Owned	*- 1,552*	-	-	*- 1,552*
- Property and equipment	-	-	-	-
- Investment property		-	-	-
- Inventories	-	-	-	-
A.2 Acquired under finance lease	-	-	-	-
- Property and equipment	-	-	-	-
- Investment property				
Total	**- 1,552**	**-**	**-**	**- 1,552**

Section 13 - Amortisation and net impairment losses on intangible assets - Caption 190

13.1 Amortisation and net impairment losses on intangible assets: breakdown

	Amortisation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Carrying amount (a + b - c)
A. Intangible assets				
A.1 Owned	- 89	-	-	- 89
- Generated internally	-	-	-	-
- Other	*- 89*	-	-	*- 89*
A.2 Acquired under finance lease	-	-	-	-
Total	**- 89**	**-**	**-**	**- 89**

Section 14 - Other operating income, net - Caption 200

14.1 Other operating expense: breakdown

		2018
1 - Charitable donations	-	583
2 - Contributions to bodies and municipalities receiving treasury services	-	6
3 - Amortisation of leasehold improvements	-	307
4 - Losses for robberies	-	76
5- Other	-	910
Total other operating expense	**-**	**1,882**

Item "5 – Other" includes prior year expense of €902 thousand incurred to settle disputes that arose in previous years and for which the bank used the related provision, as well as payments to settle interest expense of €8 thousand accrued in 2017.

14.2 Other operating income: breakdown

	2018
1 - Recoveries of administrative expenses	4,833
2 - Security box fees	71
3 - Lease income	387
4 - Other income	690
Total other operating income	**5,981**
Total caption 200	**4,099**

Item "4 - Other income" includes:
- the contribution to the Banks and Insurance Companies' Fund (FBA) of €194 thousand;
- recovery of fines and fees on current accounts and deposits of €8 thousand;
- prior year income of €261 thousand;
- sundry commissions of €227 thousand.

Section 18 - Net gains (losses) on sales of investments - Caption 250

18.1 Net gains (losses) on sales of investments: breakdown

	2018	2017
A. Property	**-**	**-**
- Gains on sales	-	-
- Losses on sales	-	-
B. Other assets	**- 1**	**59**
- Gains on sales	-	101
- Losses on sales	- 1	- 42
Net gains (losses)	**- 1**	**59**

Section 19 - Income taxes - Caption 280

19.1 Income taxes: breakdown

	2018	2017
1. Current taxes (-)	- 169	- 1,851
2. Change in current taxes from previous years (+/-)	-	-
3. Decrease in current taxes for the year (+)	-	-
3-bis. Decrease in current taxes for the year due to tax assets as per Law no. 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	- 76	- 654
5. Change in deferred tax liabilities (+/-)	-	-
6. Utilisation of prior year tax provision (+)	1,220	-
7. Income taxes (-) (-1+/-2+3+/-4+/-5)	**975**	**- 2,505**

19.2 Reconciliation between the theoretical and effective tax expense

	Tax base	Amount
Pre-tax profit	595	
Effective IRES tax rate	27.50%	
Theoretical tax expense		164
Permanent and temporary differences for IRES purposes		*- 164*
a) dividends	- 407	
b) other	- 2,124	
IRES tax		**-**
Pre-tax profit	595	
Effective IRAP tax rate	5.50%	
Theoretical tax expense		33
Permanent differences for IRAP purposes	**-**	*137*
a) non-deductible personnel expense	2,732	
b) impairment losses/gains on loans and receivables	-	
c) other	- 244	
IRAP tax		**170**
Income tax expense		**170**
Utilisation of tax provision for IRES reimbursement pursuant to Law decree no. 291/2011 - tax credit		- 1,220
Change in deferred taxes		75
Income tax benefit		**- 975**

The bank did not make any provision for IRES purposes since, as a result of the deductibility of one tenth of the impairment losses on loans and receivables recognised upon transition to IFRS 9, it recognised a loss for tax purposes.

Section 22 – Earnings per share

22.1 Average number of ordinary shares with dilutive effect

	2018	2017
Weighted average number of shares	759,750	759,750
Profit attributable to the share categories (Euro)	1,178,013	3,619,610
Basic EPS (Euro)	1.55	4.76
Diluted EPS (Euro)	1.55	4.76

Pursuant to IAS 33.10/33, the basic earnings per share (EPS) are 1.55.

The bank has not repurchased treasury shares. It has not issued nor does it have shares with dilutive effects.

PART D

Comprehensive income

BREAKDOWN OF COMPREHENSIVE EXPENSE

		2018	2017
10.	**Profit for the year**	**1,571**	**4,826**
	Items that will not be reclassified to profit or loss		
20.	Equity instruments at fair value through other comprehensive income:	- 427	-
	- Fair value losses	*- 427*	-
	- Transfers to other equity items	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in own credit rating):	-	-
	- Fair value gains (losses)	-	-
	- Transfers to other equity items	-	-
40.	Hedges of equity instruments at fair value through other comprehensive income:	-	-
	a) Fair value gains (losses) (hedged items)	-	-
	b) Fair value gains (losses) (hedges)	-	-
50.	Property, equipment and investment property	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	333	32
80.	Non-current assets held for sale and disposal groups	-	-
90.	Share of valuation reserves of equity-accounted investees	-	-
100.	Related tax	-	-
	Items that will be reclassified to profit or loss		
110.	Hedges of investments in foreign operations:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
120.	Exchange rate gains (losses):	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
130.	Cash flow hedges:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
	including: on net positions	-	-
140.	Hedging instruments (non-designated items)	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
150.	Financial assets (other than equity instruments) at fair value through other comprehensive income:	- 2,291	- 722
	a) fair value gains (losses)	*- 1,952*	*879*
	b) reclassification to profit or loss	*- 339*	*- 1,601*
	- impairment gains	*124*	*66*
	- losses on sales	*- 463*	*- 1,667*
	c) other changes	-	-
160	Non-current assets held for sale and disposal groups:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
170.	Share of valuation reserves of equity-accounted investees:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	- impairment gains (losses)	-	-
	- gains/(losses) on sales	-	-
	c) other changes	-	-
180.	Related tax	-	-
190.	**Total other comprehensive expense**	**- 2,385**	**- 690**
200.	**Comprehensive income (expense) (captions 10 + 130)**	**- 814**	**4,136**

PART E
Risks and related hedging policies

SECTION 1 - CREDIT RISK

Introduction - General information

Risk management (monitoring, management and measurement) is a fundamental creator of value for the bank and its stakeholders. Accordingly, the bank's control units (the Internal Audit Office, the Risk Governance Office - including the Risk Management, Compliance and AML Units) are given complete independence and operating powers to ensure the correct and full presentation of risks to the board of directors, the board of statutory auditors, the shareholders and all those who have direct and indirect interests in the bank's equity.

In compliance with the principle of proportionality, risks are managed using methods and processes appropriate for the bank's operations.

The Risk Management Unit of the Risk Governance Office is in charge of monitoring and managing risks. Specifically, it has the following duties:

- proposing methods, tools and procedures to identify, measure, monitor and manage the most important types of risks to management;
- measuring and assessing the bank's exposure to large risks and reporting thereon;
- checking that bank's risk profiles are in line with the strategies decided by the board of directors;
- regularly reviewing the models and methods used, reporting any weaknesses;
- checking compliance with operating limits defined by both external and internal regulations, proposing adjustments if necessary to the latter;
- working with the IT outsourcer and teams that work on risk management projects;
- monitoring the production and filing of methodological documentation about risk management and control;
- processing analyses and assessments required by the ICAAP (internal capital adequacy assessment process) and ILAAP (internal liquidity adequacy assessment process);
- preparing the data necessary for part E of the notes to the financial statements together with other units;
- checking the quality of the performing exposures portfolio and the classification and measurement of performing and non-performing exposures in the financial statements together with the other units involved;
- regularly preparing reports on trends and risk appetites of the bank's customers;
- preparing the reports on large exposures and, in the case of irregularities, informing the relevant units;
- checking compliance with the prudent regulatory limits as per Bank of Italy Circular no. 263/06, Title V, chapter 5 - Annex A (Related party transactions) every quarter.

Once a year, the Risk Management Unit prepares a report for the market when the annual report is published, which includes the "... information about capital adequacy, exposure to risks and the general characteristics of the systems in place to identify, measure and manage such risks" in the "Pillar 3, Market disclosures, situation at 31/12/..." document, posted in the financial reporting section of the bank's internet site www.carifermo.it.

Following the transposition of "Country-by-country reporting" introduced by article 89 of Directive no. 2013/36/EU (the CRD IV) into Italian law, banks are required to publish the information set out in Annex A, Part 1, Title III, Chapter 2 of Circular no. 285/2013 starting from 1 July 2014. The bank publishes this information on its website page: www.carifermo.it/it/Il-bilancio.

In accordance with Bank of Italy Circular no. 285/13, the board of directors defined the bank's risk appetite framework (RAF, updated on 28 June 2016 after the establishment of the new corporate bodies) identifying the risk objectives, the internal controls, specifying the roles and responsibilities of the internal bodies and units and preparing the related internal regulation and

the criteria to identify the more significant transactions to be approved in advance by the Risk Management Unit.

The new internal controls strengthen the role of the control units and, especially, that of the Risk Management Unit which is actively involved in monitoring credit exposure, especially non-performing exposures.

On 1 January 2018, IFRS 9 “Financial instruments” replaced IAS 39, changing the classification and measurement of financial instruments and the related impairment rules. Once of the key changes of the new standard is the calculation of lifetime expected credit losses of all performing exposures that show a “significant increase in credit risk” since initial recognition. The transition to IFRS 9 entailed the bank’s revision of the estimation parameters used to calculate collective impairment losses on performing exposures and the definition of a “significant increase in credit risk” of performing exposures.

In accordance with the “Guidance on the management of non-performing loans for Italy’s less significant institutions” issued by Bank of Italy in January 2018, the bank prepared the operational plan for managing NPL. The document “Cassa di Risparmio di Fermo’s strategy for managing NPE” approved in June 2018 and updated in October 2018 to account for the interim figures presents the bank’s NPE management strategy, which is firstly aimed at its optimisation, by maximising the present value of recoveries. The bank defined its strategy on the basis of an analysis of its operating ability, the market conditions and the characteristics of its NPE portfolio. As required by Bank of Italy, the update of its “NPE operational management plan” will be completed before 31 March 2019, based on the 2018 annual figures.

The bank and its bodies encourage the circulation and development of a cross-the-board risk culture and employee training about the issue. Accordingly, it provided the internal bodies with information about new legislation that affects the bank’s operations, showing the bank’s compliance and any necessary actions.

Qualitative disclosure

1. General information

1. General information

In line with its mission, the bank focuses on extending credit to households and SMEs, with products designed to help develop production activities. Its natural inclination towards promoting loans to SMEs is facilitated by its partnership with the underwriting syndicates, especially with those supervised by Bank of Italy. Although it privileges its local social and economic environment, the bank also builds up its customer portfolio in areas where it has a smaller base, partly to mitigate its risks.

The bank is careful when granting and monitoring credit that it does not build up risk concentrations in one sector or industry or, with respect to households, in certain age brackets.

The bank has a policy of ongoing improvement to safeguard both the debtors and their families as well as itself, covering product efficiency, insurance policies for pure risk with cover for death, invalidity and dismissals.

2. Credit risk management policies

2.1 Organisational aspects

Credit risk is the most significant risk for the bank and is the risk of losses due to the non-payment or partial payment of principal, interest or other amounts by the debtor (ordinary and institutional customers). Credit risk includes counterparty risk, i.e., the risk that the counterparty to a transaction involving certain financial instruments defaults before the transaction is settled.

The unit which decides and organises the management of credit risk has different operating powers, depending on whether it is located at the branches/agencies or the head office (board of directors, managing director, Loans Department, Division and Office heads). Each level is defined considering the overall risk assessment of each customer and potential connected customers, the type of credit, the direct and indirect exposure and type of guarantee.

The lending procedure also includes activities and controls for risk management carried out by the following head office units:

- Loans Office: assists the branches with the preliminary investigations stage, assesses credit facility applications approved by the relevant branch bodies checking the risks and compliance with their powers, monitors the existing credit facilities and that the branches renew them. At the end of June 2016, the bank rolled out a tailored performing exposure monitoring project, which entailed the use of IT procedures (Credit monitoring procedure), designed to prevent steady credit deterioration with the timely assessment of appropriate remedial actions.
- Problem Loans Office: proposes, assisted by the Loans Monitoring Unit, the classification of positions in temporary difficulties and/or for which the bank plans to take recovery measures, as “unlikely to pay”, encouraging the branches to have them return to a “performing” status; monitors and checks “restructured” positions; prepares a quarterly report for the corporate bodies on the situation and changes in reporting positions.
- Legal Affairs and Litigation Office: manages bad exposures and litigation; analyses bad exposures to identify the appropriate actions to be taken.
- Risk Management Unit: assesses and develops credit risk measurement methodologies in line with best practices; carries out static and dynamic analyses of the exposure portfolio’s risk profile and reports thereon every quarter to the internal bodies and bank risk monitoring units; analyses trends in the exposures and regularly checks that they are classified and provided for correctly.

- Compliance Office: analyses credit lending procedures and processes and related contracts to check aspects subject to potential legal risk and non-compliance with current legislation.
- Inspection and Internal Audit Office:performs level 3 controls, including on-site, and checks the bank's regular operations and changes in risks; assesses the completeness, adequacy, working and reliability of the internal controls, informing the corporate bodies of any need for adjustment.

2.2 Management, measuring and control systems

In order to identify any deterioration in customers' credit standing in advance and to analyse trends, the bank focuses on checking its relationships with its customers, including by using the information available in the central risk database, which identifies irregularities with a potential negative impact on risk.

The control functions use a specific early warning procedure, the Credit Position Control (CPC), which gives each borrower a score for their credit riskiness. The CPC is used to monitor customers' behaviour in order to identify any loan deterioration on a timely basis using diagnostic tools. The procedure gives each borrower a score for their credit riskiness

The Risk Management Unit prepares regular reports for management, the branches and relevant internal units. Quarterly reports analysing the entire portfolio's risk and additional in-depth analyses by business and geographical segment are prepared for the board of directors. This report assesses compliance with the main internal limits, monitors the capital absorption of risks assumed and analyses large exposures.

The Risk Management Unit regularly checks the lifetime expected credit losses on the bank's exposures portfolio using the S.A.Ra. application's internal rating system.

The S.A.Ra. rating system, used for management monitoring purposes, divides customers into three main segments (Corporate, SME retail and Retail) and classifies counterparties using a scale of ten classes, consisting of nine for performing counterparties (AAA, AA, A, BBB, BB, B CCC, CC and C) and one for defaulting counterparties (D). The system has two different methods to measure probability of default (PD), one for businesses and one for individuals.

The internal rating system has also been included in the loan disbursement process, amending the related "delegated powers". Specifically, when positions are rated as CCC or below, the loan approval powers are automatically transferred to general management and are exercised by no lower than the head of the Loans Office.

The Risk Management Unit checks compliance with the limits and ceilings introduced by the Credit Policy for credit quality, counterparty concentration and concentration by product every quarter.

The Risk Management Unit also performs stress tests on the capital requirement for credit and counterparty risk, including quantification, in terms of additional capital, of sensitivity to three risk factors:

1. counterparty credit worthiness
2. exposure deterioration rate
3. appropriateness of use of the credit risk mitigation tools.

The stress test results are included in the quarterly reports.

As required by the bank's strategy for managing NPE, the Risk Management Unit carries out quarterly checks of actual results and the application of non-performing exposure management. It reports the results of its quarterly checks to the bank's internal bodies.

2.3 Measurement of expected credit losses

IFRS 9 requires that in-scope financial instruments be classified into three stages, according to their credit quality deterioration:

- stage 1: financial instruments whose credit risk has not significantly increased since initial recognition or with a low credit risk at the reporting date;
- stage 2: financial instruments whose credit risk has increased significantly since initial recognition, but for which there is no objective evidence of impairment;
- stage 3: financial assets with objective evidence of impairment at the reporting date (NPE).

With the resolution of 27 March 2018, the board of directors defined the “significant increase in credit risk”, i.e., when a financial asset should be classified into stage 2, by considering certain indicators, such as a worsening in the counterparty’s internal rating, a deterioration in the internal score, the number of ongoing past due/overdrawn days and any forbearance measures.

The above rules to reclassify performing exposures from stage 1 to stage 3 are used within a model prepared in collaboration with the outsourcer:

The bank estimated ECL considering forward looking information, including macroeconomic information.

It identifies its NPE to be classified as stage 3 in accordance with the definitions and non-performing categories provided for by Bank of Italy’s requirements set out in Chapter II “Credit quality” of Circular no. 272 “Accounts matrix”, fifth update. These exposures are assessed individually.

2.4 Credit risk mitigation techniques

The bank uses credit risk mitigation techniques and tools, the classification and utilisation of which are set out in the “Credit risk mitigation policies” document which requires that:

- the bank obtains qualifiable and acceptable guarantees, such as CRM tools, for its credit exposure on a preferential basis, without waiving those without these requirements as additional protection of credit;
- “collateral or personal guarantees, regardless of their acceptability as CRM tools, are considered to be ancillary compared to the credit transaction and cannot replace or make less effective the assessment of the debtor’s repayment ability or be included in the assessment of the counterparty’s credit standing or the riskiness of the transaction”.

Highly mitigating factors are collateral, mainly consisting of pledges of highly liquid financial assets and mortgages on residential property. Other mitigating guarantees are mortgages on non-residential property, personal guarantees depending on the guarantor’s standing and pledges of financial assets other than government bonds.

The concentration level of these guarantees is acceptable given the concentration level of the bank’s exposure portfolio (modest).

The credit risk mitigation factors are assessed using a hierarchical classification system for the credit types, based on the intrinsic loss given default (LGD), and the guarantees, based on their risk mitigation potential. Each risk category is given a weighing factor which estimates the overall risk level when applied to the counterparty’s overall credit.

With respect to financial collateral acceptable as CRM, the bank meets the requirements of supervisory regulations.

In accordance with the above supervisory regulations and with respect to exposures guaranteed by property, the bank has systems which monitor the property’s value on a statistical basis and operating procedures to check its actual value. It has also introduced a rule for the assessment of buildings which sets out the general criteria for property evaluations by experts.

The bank uses standard contracts for guarantees. If they are inadequate, the relevant offices prepare ad hoc contracts which are checked by the Compliance Office and, if necessary, external experts.

The bank did not have credit derivatives at the reporting date.

3. Credit-impaired exposures

3.1 Management policies and strategies

The Problem Loans Office and Legal Affairs Office manage non-performing exposures.

Based on the information obtained from internal reports on exposure performance and irregularities (monitoring of trends, identification of unpaid instalments and suspect cheques, items to be fixed, past due and/or overdrawn positions, reports from branches, inspection reports, etc.) and external sources (central risk database, CAI, external provider reports on injurious positions, etc.), the Problem Loans Office assesses whether to adopt measures to contain risk and proposes classification of exposures with borrowers in temporary/financial difficulties as “unlikely to pay exposures” or “bad”, if necessary. If this is the case, it provides the Legal Affairs and Litigation Office with all the information necessary to commence the procedures to recover the exposure. The Problem Loans Office manages the restructured exposures as well and prepares a quarterly report for senior management on the status and developments of exposures, especially unlikely to pay ones.

Classification of exposures as unlikely to pay is proposed and decided by reference to the objective criteria defined by Bank of Italy, including communication to the risk database and registration of injurious positions.

After identifying positions that meet the objective requirements for classification as unlikely to pay, the Problem Loan Office manager recognises positions with credit facilities of not more than €50 thousand as unlikely to pay; the amount is increased to €100 thousand for mortgage loans. The manager obtains senior management’s approval for positions with higher credit facilities. Reclassification of exposures larger than €5,000 to the non-performing portfolio requires the managing director’s approval.

Responsibility for monitoring the unlikely to pay positions remains with the branch, assisted by the Problem Loans Office. The branch manager regularly updates the latter Office about any developments and the outcome of the related actions taken.

The Problem Loans Office manager requests the relevant branch officer for a periodic report on the position and examines the customer’s financial statements and/or assets and income, to assess and decide whether to:

- maintain the position as unlikely to pay;
- ask the branch to propose to head office that the credit facilities be withdrawn and the customer declared to be defaulting;
- propose the positions be reclassified as performing, when the original difficulties are overcome;
- classify the position as bad or to propose the position be classified as bad if it exceeds the amount of their proxies.

The Problem Loans Office prepares a monthly report for senior management on all unlikely to pay positions with a breakdown of new entries and positions reclassified as performing as well as trends therein.

With respect to the requirements for preparation of annual and interim half year reports, the Problem Loans Office checks all positions classified as unlikely to pay, overdrawn by more than 270 days and non-performing past due. Based on a review of the customers’ financial positions and their guarantees, the Office calculates the percentages to be used to determine the impairment losses and the recoverable amount.

With respect to the requirements for preparation of annual and interim half year reports, based on a review of the customers' financial positions and their guarantees, the Problem Loans Office calculates the percentages to be used to determine the impairment losses and the recoverable amount.

With reference to its credit-impaired exposures, the bank has defined an action plan based on the type of exposure, the underlying guarantee, the position ageing and the progress of legal actions. Specifically, the action plan for the reduction of its NPE portfolio set out in its NPE management strategy include out-of-court activities through external credit collection agencies and legal advisors and the factoring of a portion of the NPE portfolio.

3.2 Write-offs

Based on the amount involved and their relevant powers, the heads of the Organisation and Legal Affairs department, Legal Affairs and Litigation Office and Problem Loans Office and senior management may transfer positions for which a loss is expected to the "credit loss account". Positions are written off when they are considered to be irrecoverable due to new events, such as winding ups, unsuccessful enforcement procedures and unsuccessful out-of-court recovery attempts of amounts due from borrowers lacking "foreclosable assets".

3.3 Purchased or originated credit-impaired exposures

None.

4. Financial assets subject to renegotiations for commercial reasons and forbearance measures

The seventh update of circular no. 272 of 20 January 2015 updated the classification of loans and receivables, based on the definitions of non-performing exposures and forbearance introduced by the implementing technical standards (ITS) defined by the EBA. These new definitions have required a number of adjustments to internal processes and regulations, including the board of directors' approval of the "Credit measurement and classification policy" at the end of 2015, which manages the processes to classify and measure loans and receivables introducing the new concepts of performing, non-performing, forbearance, financial difficulties and the default detection parameters.

Forborne exposures (contract modifications or refinancing) are those with borrowers facing financial difficulties whose contractual terms the bank has agreed to modify solely because of such financial difficulties, regardless of their classification as non-performing or the counterparty's default.

Quantitative disclosure

A. Credit quality

A.1 Non-performing and performing exposures: carrying amount, impairment losses, performance and business breakdown

A.1.1 Breakdown of financial assets by portfolio and credit quality (carrying amount)

	Bad exposures	Unlikely to pay exposures	Non-performing past due exposures	Performing past due exposures	Performing assets	Total
1. Financial assets at amortised cost	51,080	49,708	1,565	75,851	1,030,286	**1,208,490**
2. Financial assets at fair value through other comprehensive income	-	-	-	-	64,365	**64,365**
3. Financial assets designated at fair value	-	-	-	-	-	**-**
4. Other financial assets mandatorily measured at fair value	-	-	-	-	495	**495**
5. Financial assets held for sale	-	-	-	-	-	**-**
31/12/2018	**51,080**	**49,708**	**1,565**	**75,851**	**1,095,146**	**1,273,350**
31/12/2017	**59,975**	**58,391**	**1,920**	**24,271**	**1,047,207**	**1,191,764**

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross amount and carrying amount)

	Non-performing				Performing			Total (carrying amount)
	Gross amount	Total impairment	Carrying amount	Partial/ total write-offs (*)?	Gross amount	Total impairment	Carrying amount	
1. Financial assets at amortised cost	197,126	94,773	102,353	859	1,114,429	8,292	1,106,137	1,208,490
2. Financial assets at fair value through other comprehensive income	-	-	-	-	64,489	124	64,365	64,365
3. Financial assets designated at fair value	-	-	-	-			-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-			495	495
5. Financial assets held for sale	-	-	-	-	-	-	-	-
31/12/2018	**197,126**	**94,773**	**102,353**	**859**	**1,178,918**	**8,416**	**1,170,997**	**1,273,350**
31/12/2017	**200,412**	**80,127**	**120,285**	**-**	**1,079,498**	**8,019**	**1,071,479**	**1,191,764**

The bank recognised partial write-offs of non-performing exposures of €859 thousand during the year.

It had 28 bad exposures under deed of arrangement at the reporting date (€5,572 thousand).

The counterparties of 19 exposures (€9,143 thousand), which were classified as bad in 2017, were wound up in 2018, including two positions (€4,902 thousand) that were under deed of arrangement.

Moreover, during the year the bank classified four positions (€436 thousand) under deed of arrangement from unlikely to pay to bad exposures.

The unlikely to pay exposures at the reporting date include:

- one position under deed of arrangement (€32 thousand);
- one position under deed of arrangement, currently in the cure period (€4,326 thousand);

- three positions under deed of arrangement with reserve (€426 thousand).

	Assets with poor credit quality		Other assets
	Accumulated losses	Carrying amount	Carrying amount
- Financial assets held for trading	-	-	275,872
- Hedging derivatives	-	-	-
31/12/2018	**-**	**-**	**275,872**
31/12/2017	**-**	**-**	**259,659**

A.1.3 Breakdown of financial assets by past due bracket (carrying amounts)

	Stage 1			Stage 2			Stage 3		
	From 1 to 30 days	After 30 to 90 days	After 90 days	Up to 30 days	After 30 to 90 days	After 90 days	Up to 30 days	After 30 to 90 days	After 90 days
1. Financial assets at amortised cost	44,024	-	5	19,533	9,233	3,057	2,500	3,619	86,922
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
31/12/2018	**44,024**	**-**	**5**	**19,533**	**9,233**	**3,057**	**2,500**	**3,619**	**86,922**
31/12/2017	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

1.4. Financial assets, loan commitments and financial guarantees given: total impairment losses and provisioning

	Total impairment													Total accruals for loan commitments and financial guarantees given			Total
	Stage 1				Stage 2				Stage 3				Including: purchased or originated credit-impaired financial assets				
	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	of which: individual impairment	of which: collective impairment	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	of which: individual impairment	of which: collective impairment	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	of which: individual impairment	of which: collective impairment		Stage 1	Stage 2	Stage 3	
Opening balance	**2,975**	**130**	**-**	**3,105**	**5,428**	**-**	**-**	**5,428**	**80,127**	**-**	**80,127**	**-**	**-**	**-**	**-**	**-**	**88,660**
Increase in purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cancellations other than write-offs	-	-130	-	-130	-	-	-	-	-2,136	-	-2,136	-	-	-	-	-	-2,266
Net impairment losses (gains) for credit risk (+/-)	1,074	124	-	1,198	-1,185	-	-	-1,185	7,607	-	7,607	-	-	152	58	-	7,830
Modification losses (gains)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimation methodology	-	-	-	-	-	-	-	-	15,243	-	15,243	-	-	-	-	-	15,243
Write-offs not directly recognised in profit or loss	-	-	-	-	-	-	-	-	-5,849	-	-5,849	-	-	-	-	-	-5,849
Other changes	-	-	-	-	-	-	-	-	-218	-	-218	-	-	-	-	-	-218
Closing balance	**4,049**	**124**	**-**	**4,173**	**4,243**	**-**	**-**	**4,243**	**94,774**	**-**	**94,774**	**-**	**-**	**152**	**58**	**-**	**103,400**
Collections of written-off financial assets	-	-	-	-	-	-	-	-	379	-	-	-	-	-	-	-	379
Write-offs recognised directly in profit or loss	-	-	-	-	-645	-	-	-	-41	-	-	-	-	-	-	-	-686

The opening balance of stage 1 and 2 financial assets has been reclassified upon transition to IFRS 9.

The bank assessed its stage 1 and 2 financial assets collectively, based on its models that included forward looking information used for staging purposes and to calculate the one-year and lifetime ECL of stage 1 and stage 2 exposures, respectively.

With the resolution of 27 March 2018, the board of directors defined the "significant increase in credit risk", i.e., when a financial asset should be classified into stage 2, by considering certain indicators, such as a worsening in the counterparty's internal rating, a deterioration in the internal score, the number of ongoing past due/overdrawn days and any forbearance measures.

Stage 3 financial assets have been assessed individually, also considering the relevant guarantees.

A.1.5 Financial assets, loan commitments and financial guarantees given: transfers among the various credit risk stages (gross and nominal amounts)

	Gross/nominal amounts					
	Transfer between stages 1 and 2		Transfer between stages 1 and 2		Transfer between stages 1 and 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets at amortised cost	172,119	2,187	517	-	21,504	5,761
2. Financial assets at fair value through other comprehensive income						
3. Loan commitments and financial guarantees given	46,345	590	-	24	5,109	15
31/12/2018	**218,464**	**2,777**	**517**	**24**	**26,613**	**5,776**
31/12/2017	**-**	**-**	**-**	**-**	**-**	**-**

A.1.6. On- and off-statement of financial position exposures with banks: gross and carrying amounts

	Gross amount		Total impairment losses and accruals	Carrying amount	Partial/total write-offs
	Non-performing	Performing			
A. ON-STATEMENT OF FINANCIAL POSITION					
a) Bad exposures	-		-	-	-
- including: forborne exposures	-		-	-	-
b) Unlikely to pay exposures	-		-	-	-
- including: forborne exposures	-		-	-	-
c) Non-performing past due exposures	-		-	-	-
- including: forborne exposures	-		-	-	-
d) Performing past due exposures		-	-	-	-
- including: forborne exposures		-	-	-	-
e) Other performing exposures		58,002	-	58,002	-
- including: forborne exposures		-	-	-	-
TOTAL A	**-**	**58,002**	**-**	**58,002**	**-**
B. OFF-STATEMENT OF FINANCIAL POSITION					
a) Non-performing exposures	-		-	-	-
b) Performing exposures		4,471	-	4,471	-
TOTAL B	**-**	**4,471**	**-**	**4,471**	**-**
TOTAL A + B	**-**	**62,473**	**-**	**62,473**	**-**

The amounts shown in item "B. OFF-STATEMENT OF FINANCIAL POSITION - a) Non-performing exposures" and "b) Performing exposures" are broken down in the next table for their better presentation:

Breakdown of off-statement of exposures with banks

	Gross amount		Total impairment losses and accruals	Carrying amount	Partial/total write-offs
	Non-performing	Performing			
B. OFF-STATEMENT OF FINANCIAL POSITION					
a) Non-performing exposures	-		-	-	-
a.1) Non-performing	-		-	-	-
b) Performing exposures		4,471	-	4,471	-
b.1) Deposits for repos		-	-	-	-
b.2) Interbank Deposit Protection Fund (FITD)		4,354	-	4,354	-
b.3) Commitment with CC.OO to issue securities issued by II.CC.		-	-	-	-
b.4) Interest rate derivatives		30	-	30	-
b.5) Currency forwards		87	-	87	-
TOTAL B	**-**	**4,471**	**-**	**4,471**	**-**

A.1.7. On- and off-statement of financial position exposures with customers: gross and carrying amounts

	Gross amount		Total impairment losses and accruals	Carrying amount	Partial/total write-offs
	Non-performing	Performing			
A. ON-STATEMENT OF FINANCIAL POSITION					
a) Bad exposures	132,434		81,355	51,079	859
- including: forborne exposures	*17,057*		*11,291*	*5,766*	*22*
b) Unlikely to pay exposures	62,909		13,202	49,707	-
- including: forborne exposures	*22,463*		*5,173*	*17,290*	-
c) Non-performing past due exposures	1,783		217	1,566	-
- including: forborne exposures	*11*		*2*	*9*	-
d) Performing past due exposures		78,378	2,018	76,360	-
- including: forborne exposures		*4,245*	*137*	*4,108*	-
e) Other performing exposures		1,318,632	6,398	1,312,234	-
- including: forborne exposures		*7,878*	*119*	*7,759*	-
TOTAL A	**197,126**	**1,397,010**	**103,190**	**1,490,946**	**859**
B. OFF-STATEMENT OF FINANCIAL POSITION					
a) Non-performing exposures	7,598		-	*7,598*	-
b) Performing exposures		527,088	152	526,936	-
TOTAL B	**7,598**	**527,088**	**152**	**534,534**	**-**
TOTAL A + B	**204,724**	**1,924,098**	**103,342**	**2,025,480**	**859**

Breakdown of off-statement of exposures with banks

	Gross amount		Total impairment losses and accruals	Carrying amount	Partial/total write-offs
	Non-performing	Performing			
B. OFF-STATEMENT OF FINANCIAL POSITION					
a) Non-performing exposures	7,598		-	*7,598*	-
a.1) Financial endorsement credits	3		-	*3*	-
a.2) Commercial endorsement credits	477		-	*477*	-
a.3) Commitments of uncertain use	7,118		-	*7,118*	-
b) Performing exposures		527,088	152	526,936	-
b.1) Financial endorsement credits		21	-	21	-
b.2) Commercial endorsement credits		19,939	101	19,838	-
b.3) Commitments of uncertain use		502,860	51	502,809	-
b.4) Financing for repos		52	-	52	-
b.5) Commitment with II.CC to purchase securities issued by CC.OO.		3,428	-	3,428	-
b.6) Interest rate derivatives and forwards		52	-	52	-
b.7) Currency forwards		104	-	104	-
b.8) Risks associated with SFTs (repos)		-	-	-	-
b.9) Interbank Deposit Protection Fund - voluntary scheme		632	-	632	-
TOTAL B	**7,598**	**527,088**	**152**	**534,534**	**-**

A.1.8 On-statement of financial position exposures with banks: gross non-performing positions

	Bad exposures	Unlikely to pay exposures	Non-performing past due exposures
A. Gross opening balance	**-**	**-**	**-**
- including: exposures transferred but not derecognised	-	-	-
B. Increases	**-**	**-**	**-**
B.1 from performing exposures	-	-	-
B.2 from purchased or originated credit-impaired exposures	-	-	-
B.3 transfers from other non-performing categories	-	-	-
B.4 modification gains	-	-	-
B.5 other increases	-	-	-
C. Decreases	**-**	**-**	**-**
C.1 transfers to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	-	-
C.4 sales	-	-	-
C.5 losses on sales	-	-	-
C.6 transfers to other non-performing categories	-	-	-
C.7 modification losses	-	-	-
C.8 other decreases	-	-	-
D. Gross closing balance	**-**	**-**	**-**
- including: exposures transferred but not derecognised	-	-	-

A.1-bis On-statement of financial position exposures with banks: gross forborne exposures broken down by credit quality

	Forborne exposures: non-performing	Forborne exposures: performing
A. Gross opening balance	**-**	**-**
- including: exposures transferred but not derecognised	-	-
B. Increases	**-**	**-**
B.1 transfers from performing exposures not subject to forbearance measures	-	-
B.2 transfers from performing forborne exposures	-	
B.3 transfers from non-performing forborne exposures		-
B.4 other increases	-	-
C. Decreases	**-**	**-**
C.1 transfers to performing exposures not subject to forbearance measures		-
C.2 transfers to performing forborne exposures	-	
C.3 transfers to non-performing forborne exposures		-
C.4 write-offs	-	-
C.5 collections	-	-
C.6 sales	-	-
C.7 losses on sales	-	-
C.8 other decreases	-	-
D. Gross closing balance	**-**	**-**
- including: exposures transferred but not derecognised	-	-

A.1.9 On-statement of financial position exposures with customers: gross non-performing positions

	Bad exposures	Unlikely to pay exposures	Non-performing past due exposures
A. Gross opening balance	**127,067**	**71,158**	**2,187**
- including: exposures transferred but not derecognised	-	-	-
B. Increases	**17,237**	**17,293**	**2,200**
B.1 from performing exposures	6,717	13,109	1,678
B.2 from purchased or originated credit-impaired exposures	-	-	-
B.3 transfers from other non-performing categories	8,516	857	-
B.4 modification gains	-	-	-
B.5 other increases	2,004	3,327	522
C. Decreases	**11,870**	**25,542**	**2,604**
C.1 transfers to performing exposures	-	5,598	163
C.2 write-offs	6,334	9	-
C.3 collections	5,536	11,433	1,570
C.4 sales	-	-	-
C.5 losses on sales	-	-	-
C.6 transfers to other non-performing categories	-	8,502	871
C.7 modification losses	-	-	-
C.8 other decreases	-	-	-
D. Gross closing balance	**132,434**	**62,909**	**1,783**
- including: exposures transferred but not derecognised	-	-	-

A.1.9-bis On-statement of financial position exposures with customers: gross forborne exposures broken down by credit quality

	Forborne exposures: non-performing	Other forborne exposures
A. Gross opening balance	**40,191**	**15,679**
- including: exposures transferred but not derecognised	-	-
B. Increases	**8,176**	**5,328**
B.1 transfers from performing exposures not subject to forbearance	1,124	4,320
B.2 transfers from performing forborne exposures	680	
B.3 transfers from non-performing forborne exposures		554
B.4 other increases	6,372	454
C. Decreases	**8,836**	**8,884**
C.1 transfers to performing exposures not subject to forbearance		3,598
C.2 transfers to performing forborne exposures	553	
C.3 transfers to non-performing forborne exposures		680
C.4 derecognitions	276	-
C.5 collections	4,602	4,044
C.6 sales	-	-
C.7 losses on sales	-	-
C.8 other decreases	3,405	562
D. Gross closing balance	**39,531**	**12,123**
- including: exposures transferred but not derecognised	-	-

A.1.10 On-statement of financial position non-performing exposures with banks: changes in total impairment

	Bad exposures		Unlikely to pay exposures		Non-performing past due exposures	
	Total	Including: forborne exposures	Total	Including: forborne exposures	Total	Including: forborne exposures
A. Opening balance	-	-	-	-	-	-
- including: exposures transferred but not derecognised	-	-	-	-	-	-
B. Increases	-	-	-	-	-	-
B.1 impairment losses on purchased or originated credit-	-		-		-	
B.2 other impairment losses	-	-	-	-	-	-
B.3 losses on sales	-	-	-	-	-	-
B.4 transfers from other non-performing categories	-	-	-	-	-	-
B.5 modification gains	-		-		-	
B.6 other increases	-	-	-	-	-	-
C. Decreases	-	-	-	-	-	-
C.1. fair value gains	-	-	-	-	-	-
C.2 impairment gains on collections	-	-	-	-	-	-
C.3 gains on sales	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other non-performing categories	-	-	-	-	-	-
C.6 modification losses	-		-		-	
C.7 other decreases	-	-	-	-	-	-
D. Closing balance	-	-	-	-	-	-
- including: exposures transferred but not derecognised	-	-	-	-	-	-

A.1.11 On-statement of financial position non-performing exposures with customers: changes in total impairment

	Bad exposures		Unlikely to pay exposures		Non-performing past due exposures	
	Total	Including: forborne exposures	Total	Including: forborne exposures	Total	Including: forborne exposures
A. Opening balance	**67,092**	**9,357**	**12,768**	**4,372**	**267**	**89**
- including: exposures transferred but not derecognised	-	-	-	-	-	-
B. Increases	**23,667**	**3,286**	**4,536**	**1,646**	**206**	**2**
B.1 impairment losses on purchased or originated credit-impaired exposures	-	-	-	-	-	-
B.2 other impairment losses	6,903	1,822	4,398	1,572	206	2
B.3 losses on sales	-	-	-	-	-	-
B.4 transfers from other non-performing categories	1,521	41	136	72	-	-
B.5 modification gains	-	-	-	-	-	-
B.6 other increases	15,243	1,423	2	2	-	-
C. Decreases	**9,404**	**1,352**	**4,102**	**845**	**256**	**89**
C.1. impairment gains	2,171	882	1,676	630	53	13
C.2 impairment gains on collections	1,173	179	896	166	67	4
C.3 gains on sales	-	-	-	-	-	-
C.4 write-offs	5,840	271	9	8	-	-
C.5 transfers to other non-performing categories	-	-	1,521	41	136	72
C.6 modification losses	-	-	-	-	-	-
C.7 other decreases	220	20	-	-	-	-
D. Closing balance	**81,355**	**11,291**	**13,202**	**5,173**	**217**	**2**
- including: exposures transferred but not derecognised	-	-	-	-	-	-

A.2 Classification of financial assets, loan commitments and financial guarantees given based on internal and external ratings

A.2.1 Breakdown of financial assets, loan commitments and financial guarantees given by external rating class (gross amounts)

Moody's provides the external ratings in accordance with the ECAI used to calculate the capital requirements for credit risk on exposures with governments and supervised intermediaries.

The exposure with externally-rated ordinary customers on and off-statement of financial position is negligible.

The exposure with institutional and banking counterparties has the rating shown in the next table:

	External rating class						Unrated	Total
	AAA/AA-	A+/A-	BBB+/BBB	BB+/BB-	B+/B-	Below B		
A. Financial assets at amortised cost	**-**	**1,739**	**103,493**	**-**	**-**	**-**	**1,206,322**	**1,311,554**
- Stage 1	-	1,739	103,493	-	-	-	819,821	925,053
- Stage 2	-	-	-	-	-	-	189,375	189,375
- Stage 3	-	-	-	-	-	-	197,126	197,126
B. Financial assets at fair value through other comprehensive income	**-**	**-**	**60,573**	**-**	**-**	**-**	**3,916**	**64,489**
- Stage 1	-	-	60,573	-	-	-	3,916	64,489
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (A + B)	**-**	**1,739**	**164,066**	**-**	**-**	**-**	**1,210,238**	**1,376,043**
including: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-
C. Loan commitments and financial guarantees given	**-**	**3,428**	**-**	**-**	**-**	**-**	**535,455**	**538,883**
- Stage 1	-	3,428	-	-	-	-	476,450	479,878
- Stage 2	-	-	-	-	-	-	51,407	51,407
- Stage 3	-	-	-	-	-	-	7,598	7,598
Total C	**-**	**3,428**	**-**	**-**	**-**	**-**	**535,455**	**538,883**
Total (A+B+C)	**-**	**5,167**	**164,066**	**-**	**-**	**-**	**1,745,693**	**1,914,926**

A.2.2 Breakdown of financial assets, loan commitments and financial guarantees given by internal rating class (gross amounts)

The bank has decided not to use internal rating systems.

A.3 Breakdown of guaranteed exposure by type of guarantee

A.3.2 On- and off-statement of financial position guaranteed credit exposures with customers

	Gross amount	Carrying amount	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Endorsement credits				
								Other derivatives								
			Mortgaged property	Property under finance lease	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other	Public administrations	Banks	Other financial companies	Other	
- Guaranteed exposures:	**852,186**	**763,009**	**484,700**	**-**	**8,773**	**5,684**	**-**	**-**	**-**	**-**	**-**	**9,871**	**5,381**	**17,331**	**222,202**	**753,942**
- fully guaranteed	815,581	734,776	481,102	-	7,612	4,659	-	-	-	-	-	6,826	4,966	14,466	215,080	734,711
- including: non-performing	*158,588*	*89,661*	*77,987*	-	*73*	*266*	-	-	-	-	-	-	*136*	*919*	*10,280*	*89,661*
1.2. Partly guaranteed	36,605	28,233	3,598	-	1,161	1,025	-	-	-	-	-	3,045	415	2,865	7,122	19,231
- including: non-performing	*11,745*	*3,813*	*2,464*	-	*30*	-	-	-	-	-	-	-	-	*104*	*952*	*3,550*
- Off-statement of financial position guaranteed exposures:	**192,679**	**192,554**	**16,184**	**-**	**1,533**	**2,095**	**-**	**-**	**-**	**-**	**-**	**538**	**448**	**1,082**	**163,609**	**185,489**
• fully guaranteed	175,877	175,756	15,872	-	565	1,640	-	-	-	-	-	538	379	927	152,779	172,700
- including: non-performing	*4,567*	*4,567*	*362*	-	*10*	*5*	-	-	-	-	-	-	*3*	-	*4,187*	*4,567*
2.2. Partly guaranteed	16,802	16,798	312	-	968	455	-	-	-	-	-	-	69	155	10,830	12,789
- including: non-performing	*91*	*91*	-	-	-	-	-	-	-	-	-	-	-	-	*39*	*39*

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

B.1.1 Breakdown of on- and off-statement of financial position exposures with customers by business segment (carrying amount)

	Public administrations		Financial companies		Financial companies (including: insurance companies)	
	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment
A. On-statement of financial position						
A.1 Bad exposures	-	-	80	203	-	-
- including: forborne exposures	-	-	*2*	*8*	-	-
A.2 Unlikely to pay exposures	-	-	90	59	-	-
- including: forborne exposures	-	-	*11*	*4*	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-
- including: forborne exposures	-	-	-	-	-	-
A.4 Performing exposures	498,554	548	33,410	36	1,123	-
- including: forborne exposures	-	-	-	-	-	-
Total A	**498,554**	**548**	**33,580**	**298**	**1,123**	**-**
B. Off-statement of financial position						
B.1 Non-performing exposures	-	-	461	- 5	-	- 1
B.2 Performing exposures	44,515	14	8,962		89	
Total B	**44,515**	**14**	**9,423**	**5**	**89**	**1**
Total (A + B) at 31/12/2018	**543,069**	**562**	**43,003**	**303**	**1,212**	**1**
Total (A + B) at 31/12/2017	**425,545**	**-**	**27,750**	**176**	**1,256**	**-**

	Non-financial companies		Households	
	Carrying amount	Total impairment	Carrying amount	Total impairment
A. On-statement of financial position				
A.1 Bad exposures	32,338	55,683	18,661	25,469
- including: forborne exposures	*2,279*	*7,781*	*3,485*	*3,502*
A.2 Unlikely to pay exposures	35,591	11,537	14,026	1,606
- including: forborne exposures	*11,428*	*4,568*	*5,851*	*601*
A.3 Non-performing past due exposures	621	127	945	90
- including: forborne exposures	-	-	*9*	*2*
A.4 Performing exposures	507,991	5,925	348,639	1,907
- including: forborne exposures	*1,928*	*108*	*9,939*	*148*
Total A	**576,541**	**73,272**	**382,271**	**29,072**
B. Off-statement of financial position				
B.1 Non-performing exposures	6,692	-	446	-
B.2 Performing exposures	413,552	124	59,907	9
Total B	**420,244**	**124**	**60,353**	**9**
Total (A + B) at 31/12/2018	**996,785**	**73,396**	**442,624**	**29,081**
Total (A + B) at 31/12/2017	**708,866**	**72,269**	**301,679**	**15,701**

Item “A.1 Bad exposures - including: forborne exposures” includes 186 positions, comprising both those with debt rescheduling agreements and those under deed of arrangement.

Item “A.2 Unlikely to pay exposures - including: forborne exposures” includes 180 positions subject to forbearance measures.

Item “A.3 Non-performing past due exposures - including: forborne exposures” includes three positions subject to forbearance measures.

Item “A.4 Performing exposures - including: forborne exposures” comprises 172 positions subject to forbearance measures.

The credit concentration risk is analysed in the directors’ report.

B2 Breakdown of on- and off-statement of financial position exposures with customers by geographical segment

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment
- **On-statement of financial position**	51,080	81,355	-	-	-	-	-	-	-	-
- Bad exposures	49,708	13,202	-	-	-	-	-	-	-	-
- Unlikely to pay exposures	1,565	217	-	- 4	-	- 1	-	-	-	-
- Non-performing past due exposures	1,295,914	8,411	76,733		15,807		139	-	-	-
Total A	**1,398,267**	**103,185**	**76,733**	**4**	**15,807**	**1**	**139**	**-**	**-**	**-**
- **Off-statement of financial position**	7,598	-	- 6	-	-	-	-	-	-	-
• Non-performing exposures	526,930	152		-	-	-	-	-	-	-
Total B	**534,528**	**152**	**6**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A + B) at 31/12/2018	**1,932,795**	**103,337**	**76,739**	**4**	**15,807**	**1**	**139**	**-**	**-**	**-**
Total (A + B) at 31/12/2017	**1,369,743**	**88,142**	**83,265**	**2**	**11,917**	**-**	**157**	**1**	**12**	**-**

B.2.1 Breakdown of on- and off-statement of financial position exposures with customers by geographical segment

	North-west ITALY		North-east ITALY		Central ITALY		South ITALY and islands	
	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment
- **On-statement of financial position**								
- Bad exposures	3,993	5,406	109	305	44,477	71,939	2,501	3,704
- Unlikely to pay exposures	112	10	-	-	47,933	12,670	1,663	521
- Non-performing past due exposures	-	-	1	-	1,508	209	56	8
- Performing exposures	12,789	75	2,423	4	1,218,416	7,624	62,287	708
Total A	**16,894**	**5,491**	**2,533**	**309**	**1,312,334**	**92,442**	**66,507**	**4,941**
- **Off-statement of financial position**								
• Non-performing exposures	-	-	10	-	7,585	-	3	-
• Performing exposures	8,141	3	10,324	1	471,709	147	36,756	1
Total B	**8,141**	**3**	**10,334**	**1**	**479,294**	**147**	**36,759**	**1**
Total (A + B) at 31/12/2018	**25,035**	**5,494**	**12,867**	**310**	**1,791,628**	**92,589**	**103,266**	**4,942**
Total (A + B) at 31/12/2017	**16,125**	**4,620**	**3,678**	**281**	**1,281,133**	**79,310**	**68,807**	**3,931**

B.3 Breakdown of on- and off-statement of financial position exposures with banks by geographical segment

	ITALY		OTHER EUROPEAN		AMERICAS		ASIA		REST OF THE WORLD	
	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment
A. On-statement of financial										
A.1 Bad exposures	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay exposures	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	24,607	-	20,199	-	6,574	-	6,622	-	-	-
Total A	**24,607**	**-**	**20,199**	**-**	**6,574**	**-**	**6,622**	**-**	**-**	**-**
B. Off-statement of financial										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	4,471	-	-	-	-	-	-	-	-	-
Total B	**4,471**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A + B) at 31/12/2018	**29,078**	**-**	**20,199**	**-**	**6,574**	**-**	**6,622**	**-**	**-**	**-**
Total (A + B) at 31/12/2017	**31,887**	**-**	**16,533**	**-**	**7,158**	**-**	**8,391**	**-**	**-**	**-**

B.3.1 Breakdown of on- and off-statement of financial position exposures with banks by geographical segment

	North-west ITALY		North-east ITALY		Central ITALY		South ITALY and islands	
	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment
A. On-statement of financial position								
A.1 Bad exposures	-	-	-	-	-	-	-	-
A.2 Unlikely to pay exposures	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	7,371	-	-	-	17,236	-	-	-
Total A	**7,371**	**-**	**-**	**-**	**17,236**	**-**	**-**	**-**
B. Off-statement of financial position								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	118	-	-	-	4,354	-	-	-
Total B	**118**	**-**	**-**	**-**	**4,354**	**-**	**-**	**-**
Total (A + B) at 31/12/2018	**7,489**	**-**	**-**	**-**	**21,590**	**-**	**-**	**-**
Total (A + B) at 31/12/2017	**10,509**	**-**	**-**	**-**	**21,379**	**-**	**-**	**-**

B.4 Large exposures

	31/12/2018	31/12/2017
a) Carrying amount	590,785	590,884
b) Weighted amount	41,291	42,287
c) Number	5	6

As provided for by the sixth update of Circular no. 263 of the “New prudential reporting instructions for banks” of 27 December 2010, which revised the prudential regulations for risk concentration, and with reference to communication no. 0206253/11 of 7 March 2011 issued by Bank of Italy, the above table shows both the weighted and carrying amount of the large exposures. The number of positions decreased from six to five compared to 31 December 2017. Their weighted amount decreased from €42,287 thousand at 31 December 2017 to €41,291 thousand at the reporting date.

SECTION 2 - MARKET RISK

2.1 Interest rate and price risks - supervisory trading book

Qualitative disclosure

A. General aspects

The securities portfolio was almost entirely comprised of securities issued by governments or banks at floating rates in 2018, like in 2017, in order to minimise interest rate risks. The bank also pledged bank and government bonds from different portfolios as security with the ECB to obtain the required financing, pursuant to the Banca d'Italia instructions about open market operations.

Other interest rate swaps include mirroring contracts for corporate customers, hedged specifically with institutional counterparties. As a result, derivatives do not entail the bank's taking on of risk.

In short, therefore, the bank's policy for trading on its own behalf consists of short-term repurchase transactions, monitoring the performance and risk profiles, in order to achieve returns on a portfolio mainly composed of floating rate securities.

As part of its ordinary trading activities, the bank undertook transactions directly for government bonds and bonds, mostly issued by banks. It also managed the organised trades system for its own bonds.

The bank solely traded in long-term interest rate derivatives using unlisted derivatives as interest rate options and swaps.

B. Interest rate and price risk management processes and measurement methods

The bank applies the standardised method as per Regulation (EU) no. 575/2013 and the related supervisory regulations to calculate its prudent capital requirements. It has specific market risk control procedures in place as well as ensuring and checking compliance with the prudent rules.

Specifically, internal control regulations establish that the securities portfolio's exposure to market risks is checked by the Risk Management Unit using the VaR method.

In June 2016, the board of directors approved the transfer of part of its banking book to a portfolio managed by Epsilon SGR S.p.A. (total amount of €120 million). The bank gave the fund manager an additional cash management mandate of €25 million to optimise excess short-term liquidity in 2017.

The bank checks the operating and total risk limits set in the "Policies for financial risk management" using the portfolio not transferred to Epsilon S.p.A., while it checks compliance with the limits set in the mandate's guidelines for the transferred assets.

The bank measures VaR of the internally-managed portfolio based on a variance-covariance type parametric model with a confidence interval of 99% and a holding period of ten days. The VaR has a reliability factor of 99% and measures the maximum loss that the portfolio could incur in the ten days after the analysis date.

The bank measures VaR using the procedures that estimate the potential losses due to generic risk (market, interest rate and currency) and specific risk (the risk of losses due to an unfavourable change in the price of a traded financial instrument due to factors related to the issuer's situation). The procedure also performs a sensitivity analysis for each security in the bank's portfolio measuring variations in value of financial instruments (present value) caused by a variation in the interest rate curve, assuming a parallel change in the curve of 1 bps.

The calculation of the VaR of the banking book includes financial instruments, comprising shares, bonds and OEIC units of the FVTPL, FVOCI and AC portfolios, excluding foreign currency swaps and futures and derivatives.

The objective is to constantly check the exposure to market risk and compliance with the internally-established limits using the VaR method and the VaR component (VaRC) of each FVTPL, FVOCI and AC portfolio. The VaR monitoring is performed daily and the Risk Management Unit prepares a monthly summary for the board of directors.

At present, the VaR model is solely used for management and internal control purposes. The backtesting procedure of the VaR DEaR (one-day) is performed daily to check the calculation model's reliability.

With respect to the financial instruments managed by Epsilon, the manager provides the 1-month VaR with a probability level of 99% on a daily basis and the stress test results at each month end. The Risk Management Unit monitors the manager's compliance with the limits set in the mandate's guidelines once a month.

With respect to price risk, the bank's operations in price risk sensitive financial instruments (equity instruments, OEIC units, derivatives on OEIC units, share indexes, precious metals, commodities and other assets) are checked by measuring VaR using the Ermas application and as provided by the asset manager.

Quantitative disclosure

1. Regulatory trading book: breakdown by residual maturity (repricing date) of financial assets and liabilities and financial derivatives.

Currency: Euro

	On demand	up to 3 months	after 3 to 6 months	after 6 months to 1 year	after 2 to 5 years	after 6 to 10 years	After 10 years	Open term
1. Assets	**-**	**61,572**	**57,421**	**42,280**	**75,375**	**33,602**	**-**	**-**
1.1 Debt instruments	-	61,572	57,421	42,280	75,375	33,602	-	-
- with early repayment option	-	*5,330*	*1,012*	-	*3,406*	-	-	-
- other	-	*56,242*	*56,409*	*42,280*	*71,969*	*33,602*	-	-
1.2. Other assets	-						-	-
2. Financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**50,251**	**1,853**	**2,114**	**22,216**	**63,783**	**24,751**	**-**
3.1 With underlying security	-	8,066	-	-	3,006	4,416	589	-
c) Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
d) Other derivatives	-	*8,066*	-	-	*3,006*	*4,416*	*589*	-
+ long positions	-	*4,638*	-	-	*1,002*	*1,928*	*477*	-
+ short positions	-	*3,428*	-	-	*2,004*	*2,488*	*112*	-
3.2 Without underlying security	-	42,185	1,853	2,114	19,210	59,367	24,162	-
d) Options	-	*14*	*113*	*132*	*19,112*	*59,367*	*24,162*	-
+ long positions	-	*7*	*56*	*65*	*9,541*	*29,702*	*12,078*	-
+ short positions	-	*7*	*57*	*67*	*9,571*	*29,665*	*12,084*	-
e) Other derivatives	-	*42,171*	*1,740*	*1,982*	*98*	-	-	-
+ long positions	-	*20,212*	*870*	*991*	*49*	-	-	-
+ short positions	-		*870*	*991*		-	-	-

Currency: Other

	On demand	up to 3 months	after 3 to 6 months	after 6 months to 1 year	after 2 to 5 years	after 6 to 10 years	After 10 years	Open term
1. Assets	**-**	**-**	**-**	**-**	**4,413**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	4,413	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	*4,413*	-	-	-
1.2. Other assets	-	-	-	-	-	-	-	-
2. Financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**32,874**	**1,732**	**1,964**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
e) Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
f) Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	32,874	1,732	1,964	-	-	-	-
f) Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
g) Other derivatives	-	*32,874*	-	-	-	-	-	-
+ long positions	-	*17,310*	-	-	-	-	-	-
+ short positions	-	*15,564*	*1,732*	*1,964*	-	-	-	-

The amounts shown in item 3.2 "Financial derivatives without underlying security - Options" of the above table include data about the remaining term of the cap options, calculated as a series of forward rate agreement options equal in number of the options for which the bank receives (pays) the fixed rate and pays (receives) the fair value of the indexed reference rate. These options are implicitly included in the loans granted to customers and are tied to the variability of interest rates.

Item 3.2 “Financial derivatives without underlying security - Other derivatives” includes futures comprised in the assets managed by Epsylon SGR.

2. Regulatory trading book: breakdown of exposure in equity instruments and share indexes by main stock exchange

None.

3. Regulatory trading book: internal models and other methodologies for sensitivity analyses

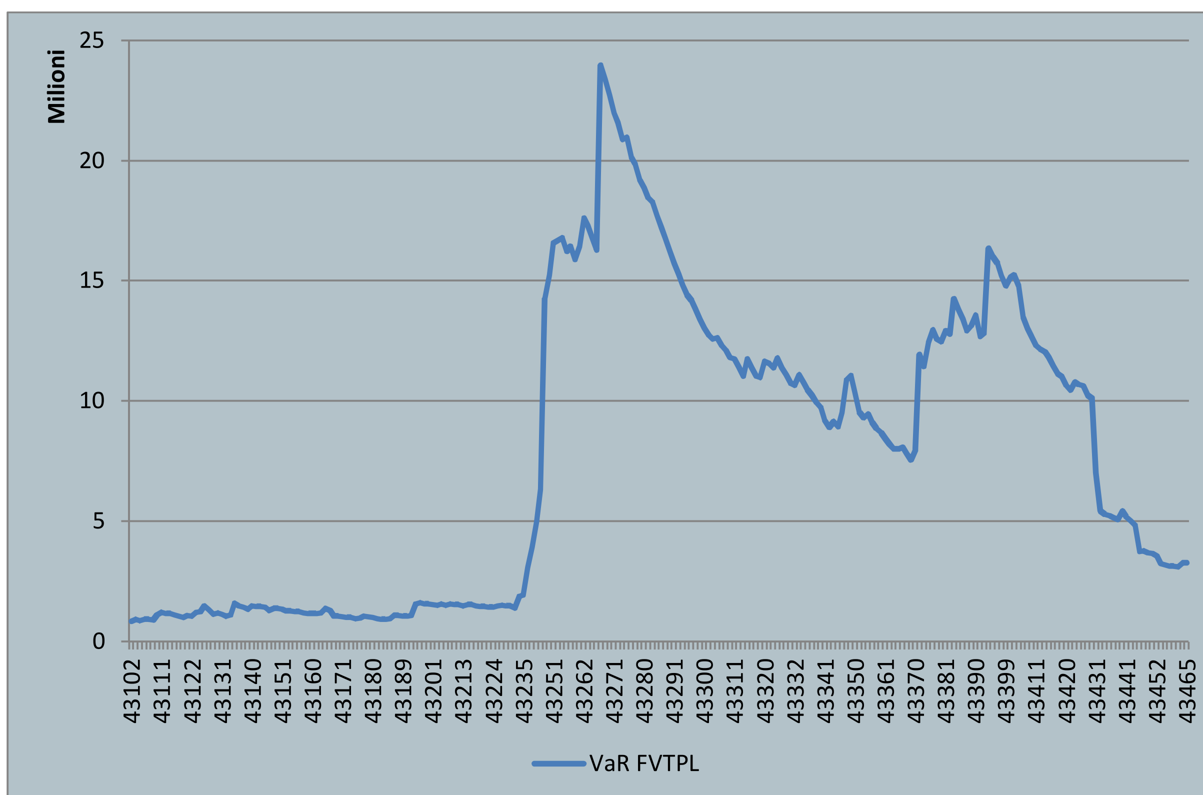
The following table shows the information provided by the VaR calculation model about the shares and bonds in the FVTPL portfolio.

The graphs show the 10-day VaR trend of the FVTPL portfolio from 1 January to 31 December 2018 [2].

VaR FVTPL	Amount (from 1 January to 31 December 2018 - in Euros)
Minimum	842,074
Maximum	23,983,144
Average	7,811,012
Reporting date	3,265,385

[2] Excluding currency spot and forward positions and derivatives.

10-day VaR, 99% confidence interval (FVTPL)



The Risk Management Unit also carries out backtesting to check how accurately the VaR model reflects real changes in value of the securities portfolio being analysed. It compares the results (profits or losses) for a certain period directly observed by the bank with the VaR results. The backtesting shows how often losses incurred are greater than those estimated using the VaR model. Actual losses should be higher than the VaR with a frequency in line with that defined by the 99% confidence level, i.e., 1%.

2.2 Interest rate and price risk - banking book

Qualitative disclosure

A. General aspects, management and measurement of interest rate and price risks

The banking book includes all financial assets and liabilities not included in the trading book. The duration mismatching of funding and lending products generates interest rate risk.

The Risk Management Unit measures the banking book's interest rate risk every quarter using the A2 matrix data and every month for internal monitoring purposes using Prometeia's Ermas application. The unit applies the methodology required by the prudential supervisory instructions (Bank of Italy Circular no. 285/2013).

The model breaks down the assets and liabilities by maturity or interest rate review date and considers annual changes in daily interest rates recorded over an observation period of six years to determine internal capital in ordinary conditions, considering a 1% (downward) and 99% (upward) trend. In stress conditions, the model assumes a 200 bps change in the interest rates and quantifies the change in the total economic value of the instruments included in the banking book, on which the supervisory test is performed compared to the bank's own funds.

For management and monitoring purposes only, the bank's interest rate risk is subjected to additional monthly analyses to assess the impact of changes in interest rates on profit (repricing gap) and the economic value of the bank's assets and liabilities (duration gap) using the Ermas application. The analyses also include on-demand items and assessing the stickiness effect (i.e., how long it takes to adapt to changes in interest rates) and the beta effect (how changes in market rates are absorbed by rates applied to on-demand products).

In order to ensure the proper monitoring of the banking book's interest rate risk, it is measured every month while monthly and quarterly reports are prepared for the managing director and the board of directors, respectively.

With reference to price risk, there is no indication of risk that the banking book's value decreases due to changes in demand and offer on the reference market.

Quantitative disclosure

1. Banking book: breakdown by residual maturity (by repricing date) of financial assets and liabilities

Currency: Euro

	On demand	up to 3 months	after 3 to 6 months	after 6 months to 1 year	after 2 to 5 years	after 5 to 10 years	After 10 years	Open term
1. Assets	**297,474**	**524,38**	**64,546**	**28,708**	**249,695**	**71,883**	**30,997**	**-**
1.1 Debt instruments	-	69,00	45,099	-	154,983	23,115	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- Other	-	*69,001*	*45,099*	-	*154,983*	*23,115*	-	-
1.2 Financing to banks	587	14,05	-	-	-	-	-	-
1.3 Financing to customers	**296,887**	**441,33**	**19,447**	**28,708**	**94,712**	**48,768**	**30,997**	**-**
- current accounts	*168,231*	*398*	*999*	*1,725*	*6,182*	*2,356*	-	-
- other financing	*128,656*	*440,93*	*18,448*	*26,983*	*88,530*	*46,412*	*30,997*	-
- with early repayment option	*32,886*	*426,656*	*15,351*	*21,256*	*77,611*	*41,606*	*30,997*	-
- Other	*95,770*	*14,279*	*3,097*	*5,727*	*10,919*	*4,806*	-	-
2. Liabilities	**1,374,670**	**35,08**	**14,524**	**11,143**	**26,836**	**303**	**1,038**	**-**
2.1 Due to customers	1,371,702	5,175	4,123	24	210	303	1,038	-
- current accounts	*1,260,46*	-	-	-	-	-	-	-
- other financial liabilities	*111,239*	*5,175*	*4,123*	*24*	*210*	*303*	*1,038*	-
- with early repayment option	-	-	-	-	-	-	-	-
- Other	*111,239*	*5,175*	*4,123*	*24*	*210*	*303*	*1,038*	-
2.2. Due to banks	1,294	-	-	-	-	-	-	-
- current accounts	*1,294*	-	-	-	-	-	-	-
- other financial liabilities	-	-	-	-	-	-	-	-
2.3 Debt instruments	1,674	29,91	10,401	11,119	26,626	-	-	-
- with early repayment option	-	*24,986*	*7,321*	*5,409*	*26,616*	-	-	-
- Other	*1,674*	*4,925*	*3,080*	*5,710*	*10*	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**69,46**	**18,249**	**7,695**	**46,731**	**15,817**	**6,255**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	69,46	18,249	7,695	46,731	15,817	6,255	-
- Options	**-**	***69,46***	***18,249***	***7,695***	***46,731***	***15,817***	***6,255***	**-**
+ long positions	-	*2,963*	*3,828*	*7,609*	*46,343*	*15,271*	*6,093*	-
+ short positions	-	*66,504*	*14,421*	*86*	*388*	*546*	*162*	-
- Other derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
[illegible]	-	-	-	-	-	-	-	-
4. Other off-statement of financial position transactions	**-**	***104***	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	*52*	-	-	-	-	-	-
+ short positions	-	*52*	-	-	-	-	-	-

Currency: Other

	On demand	up to 3 months	after 3 to 6 months	after 6 months to 1 year	after 2 to 5 years	after 5 to 10 years	After 10 years	Open term
1. Assets	**5,534**	**131**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
1.2 Financing to banks	4,862	121	-	-	-	-	-	-
1.3 Financing to customers	**672**	**10**	**-**	**-**	**-**	**-**	**-**	**-**
- current accounts	*666*	-	-	-	-	-	-	-
- other financing	*6*	*10*	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- Other	*6*	*10*	-	-	-	-	-	-
2. Liabilities	**5,019**	**79**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	5,019	-	-	-	-	-	-	-
- current accounts	*5,018*	-	-	-	-	-	-	-
- other financial liabilities	*1*	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- Other	*1*	-	-	-	-	-	-	-
2.2 Due to banks	-	79	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other financial liabilities	-	*79*	-	-	-	-	-	-
2.3 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-statement of financial position transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

2. Banking book: internal models and other methodologies for sensitivity analyses

The impact on interest income of a 1% increase or decrease (thus including the trading portfolio) in interest rates is calculated using the Ermas software for management purposes, assuming that the maturity dates do not change for a year.

The bank uses an econometric model ("behavioural model") based on the captions' past trends for a realistic treatment of the assets and liabilities (current accounts), which provides for the modelling of on-demand items and valuation of the stickiness effect (i.e., how long it takes to adapt to changes in interest rates, that is the average repricing period) and the beta effect (i.e., the elasticity of bank rates, which show how changes in market rates are absorbed by rates applied to on-demand products). For comparative purposes, the bank checks the impact of the shocks on net interest income even when modelling of on-demand items does not take place ("contractual model").

Analysis of net interest income (NII) delta - Shock +100 bps, -100 bps
Contractual model (without modelling on-demand items)
in Euros

2018	NII DELTA REPRICING - SHOCK +100 bps	NII DELTA REPRICING - SHOCK -100 bps
Assets	***10,351,065***	***-9,749,446***
Other assets	6,483	-6,483
Assets / Cash	230,869	-230,876
Loans and receivables with banks	310,861	-310,871
Loans and receivables with customers	8,117,034	-8,039,765
Securities portfolio	1,666,835	-1,142,469
Assets held by asset manager	18,983	-18,983
Off-statement of financial position	***242***	***-245***
Liabilities	***-14,311,062***	***14,305,756***
Securities issued	-377,955	372,117
Due to banks	-69,696	69,698
Due to customers	-13,863,411	13,863,941
Total	***-3,959,755***	***4,556,064***

Analysis of net interest income (NII) delta - Shock +100 bps, -100 bps
Behavioural model – stickiness effect
in Euros

2018	*NII DELTA REPRICING - SHOCK -1*	*NII DELTA REPRICING - SHOCK 2*
Assets	**10,131,030**	**-9,544,530**
Other assets	6,483	-6,483
Assets/Cash	230,869	-230,876
Loans and receivables with banks	310,861	-310,871
Loans and receivables with customers	7,897,000	-7,834,849
Securities portfolio	1,666,835	-1,142,469
Assets held by asset manager	18,983	-18,983
Off-statement of financial position	**242**	**-245**
Liabilities	**-8,341,050**	**787,636**
Securities issued	-377,955	-377,955
Due to banks	-69,696	69,698
Due to customers	-7,893,400	345,821
Total	**1,790,222**	**-8,757,140**

Analysis of net interest income (NII) delta - Shock +100 bps, -100 bps
Behavioural model – stickiness and beta effects
in Euros

2018	*REPRICING BETA NII DELTA - SHOCK 1*	*REPRICING BETA NII DELTA - SHOCK 2*
Assets	**10,037,508**	**-9,450,144**
Other assets	6,483	-6,483
Assets/Cash	230,869	-230,876
Loans and receivables with banks	310,861	-310,871
Loans and receivables with customers	7,803,477	-7,740,463
Securities portfolio	1,666,835	-1,142,469
Assets held by asset manager	18,983	-18,983
Off-statement of financial position	**242**	**-245**
Liabilities	**-4,000,006**	**809,050**
Securities issued	-377,955	372,117
Due to banks	-69,696	69,698
Due to customers	-3,552,355	367,236
Total	**6,037,744**	**-8,641,339**

2.3 Currency risk

Qualitative disclosure

A. General aspects, management and measurement of currency risk

Currency risk is the risk that the bank may incur losses due to adverse changes in foreign exchange rates affecting its positions.

The bank's currency risk mainly arises on its transactions in foreign currency securities held in the asset management portfolio. Foreign currency activities also include spot and forward purchases and sales with customers, which are concurrently matched on the market by agreeing very short-term short/long positions that give rise to immaterial price risk. The bank mainly operates in the US dollar.

The relevant operating offices that carry out first level controls monitor the currency positions. The Risk Management Unit performs checks of the internal limits once a month. The bank does not usually take on large risky positions in the currencies market.

Internal models to calculate the capital requirements for market risk are not used.

B. Currency hedges

The bank does not agree specific currency hedges. For operating and economic efficiency purposes, transactions with customers are not immediately matched on the market but may be offset, including cumulatively, during the same day or the following day, against other transactions in the same currency of a spot or forward nature and an opposite sign.
Currency risk hedges for the assets managed by the external manager are managed through hedges agreed by Epsilon SGR S.p.A..

Quantitative disclosure

1. Breakdown of assets, liabilities and derivatives by currency

	Currency					
	US dollar	Pound sterling	Yen	Canadian dollar	Swiss franc	Other currencies
A. Financial assets	**9,111**	**201**	**20**	**100**	**150**	**517**
A.1 Debt instruments	4,434	-	-	-	-	-
A.2 Equity instruments	-	-	-	-	-	-
A.3 Financing to banks	4,068	201	10	100	150	454
A.4 Financing to customers	609	-	10	-	-	63
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**140**	**79**	**54**	**9**	**12**	**46**
C. Financial liabilities	**4,093**	**271**	**79**	**108**	**149**	**398**
C.1 Due to banks	-	-	79	-	-	-
C.2 Due to customers	4,093	271	-	108	149	398
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**12,377**	**-**	**7,923**	**-**	**-**	**24**
- Options	-	-	-	-	-	-
+ *long positions*	-	-	-	-	-	-
+ *short positions*	-	-	-	-	-	-
- Other derivatives	12,377	-	7,923	-	-	24
+ *long positions*	*4,677*	-	*6,358*	-	-	-
+ *short positions*	*7,700*	-	*1,565*	-	-	*24*
Total assets	**13,928**	**280**	**6,432**	**109**	**162**	**563**
Total liabilities	**11,793**	**271**	**1,644**	**108**	**149**	**422**
Difference (+/-)	**2,135**	**9**	**4,788**	**1**	**13**	**141**

2. Internal models and other methodologies for sensitivity analyses

The bank does not use internal models to measure currency risk or other methodologies for sensitivity analyses.

SECTION 3 - DERIVATIVES AND HEDGING POLICIES

3.1 - Trading derivatives

A. Financial derivatives

A.1 Trading financial derivatives: reporting-date notional amounts

	31/12/2018				31/12/2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt instruments and interest rates	**-**	**-**	**23,993**	**20,822**	**-**	**-**	**29,498**	**25,000**
a) Options	-	-	23,860	-	-	-	29,331	-
b) Swaps	-	-	133	-	-	-	167	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	20,822	-	-	-	25,000
e) Other	-	-	-	-	-	-	-	-
2. Equity instruments and share indexes	**-**	**-**	**-**	**12,056**	**-**	**-**	**-**	**34**
a) Options	-	-	-	12,000	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	56	-	-	-	34
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**-**	**20,099**	**-**	**-**	**-**	**15,166**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	20,099	-	-	-	15,166	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**-**	**44,092**	**32,878**	**-**	**-**	**44,664**	**25,034**

A.2 Trading financial derivatives: gross positive and negative fair value - breakdown by product

	31/12/2018				31/12/2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	-	30	49	-	-	50	-
b) Interest rate swaps	-	-	4	-	-	-	7	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	192	-	-	-	155	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**226**	**49**	**-**	**-**	**212**	**-**
1. Negative fair value								
a) Options	-	-	32	117	-	-	52	-
b) Interest rate swaps	-	-	4	-	-	-	7	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	137	-	-	-	141	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**173**	**117**	**-**	**-**	**200**	**-**

A.3 OTC financial derivatives: notional amounts, gross positive and negative fair value by counterparty

	Government and central banks	Banks	Other financial companies	Other
Contracts not covered by netting agreements		**11,953**	**115**	**11,996**
1. Debt instruments and interest rates				
- notional amount		11,919	115	11,960
- positive fair value		30	-	4
- negative fair value		4	-	32
2. Equity instruments and share indexes		**-**	**-**	**-**
- notional amount		-	-	-
- positive fair value		-	-	-
- negative fair value		-	-	-
3. Currencies and gold		**3,816**	**12,678**	**3,935**
- notional amount		3,729	12,522	3,849
- positive fair value		87	104	1
- negative fair value		-	52	85
4. Commodities		**-**	**-**	**-**
- notional amount		-	-	-
- positive fair value		-	-	-
- negative fair value		-	-	-
5. Other		**-**	**-**	**-**
- notional amount		-	-	-
- positive fair value		-	-	-
- negative fair value		-	-	
Contracts covered by netting agreements	**-**	**-**	**-**	**-**
1. Debt instruments and interest rates				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2. Equity instruments and share indexes	**-**	**-**	**-**	**-**
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3. Currencies and gold	**-**	**-**	**-**	**-**
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5. Other	**-**	**-**	**-**	**-**
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC trading financial derivatives: notional amounts

	Up to 1 year	From 1 to 5 years	After 5 years	Total
A.1 Financial derivatives on debt instruments and interest rates	3,765	12,193	8,036	23,994
A.2 Financial derivatives on equity instruments and share indexes	-	-	-	-
A.3 Financial derivatives on currencies and gold	20,099	-	-	20,099
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
31/12/2018	**23,864**	**12,193**	**8,036**	**44,093**
31/12/2017	**44,520**	**14,447**	**10,730**	**69,697**

B. Credit derivatives

The bank has not agreed credit derivatives.

3.3 Other disclosures on trading and hedging derivatives

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counterparties	Banks	Other financial companies	Other
- Financial derivatives				
- **Debt instruments and interest rates**	**-**	**11,953**	**115**	**11,996**
• notional amount	-	11,919	115	11,960
• positive fair value	-	30	-	4
• negative fair value	-	4	-	32
- **Equity instruments and share indexes**	**-**	**-**	**-**	**-**
• notional amount	-	-	-	-
• positive fair value	-	-	-	-
• negative fair value	-	-	-	-
- **Currencies and gold**	**-**	**3,816**	**12,678**	**3,935**
• notional amount	-	3,729	12,522	3,849
• positive fair value	-	87	104	1
• negative fair value	-	-	52	85
- **Commodities**	**-**	**-**	**-**	**-**
• notional amount	-	-	-	-
• positive fair value	-	-	-	-
• negative fair value	-	-	-	-
- **Other**	**-**	**-**	**-**	**-**
• notional amount	-	-	-	-
• positive fair value	-	-	-	-
• negative fair value	-	-	-	-
- **Credit derivatives**				
• **Purchases and protection**	**-**	**-**	**-**	**-**
• notional amount	-	-	-	-
• positive fair value	-	-	-	-
• negative fair value	-	-	-	-
• **Sales and protection**	**-**	**-**	**-**	**-**
• notional amount	-	-	-	-
• positive fair value	-	-	-	-
• negative fair value	-	-	-	-

SECTION 4 - LIQUIDITY RISK

Qualitative disclosure

A. General aspects, management and measurement of liquidity risk

Liquidity risk is the risk that the bank is unable to meet its payment commitments due to its inability to raise funds on the market (funding liquidity risk) and/or to free its assets (market liquidity risk), thus jeopardising daily operations or its financial position.

The bank's liquidity risk management strategy is based on ensuring a steady flow of liquidity, as required by the supervisory regulations and its healthy and prudent management policies. The "Liquidity risk governance and management policy", whose latest version was approved by the board of directors in June 2018, defines the bank's liquidity and funding management policies, the risk objectives and the main stages of the risk management and monitoring process, specifying the roles and responsibilities of the relevant internal bodies and units. The document also includes the contingency funding plan that sets out the strategies for handling any liquidity crises and the procedures for obtaining funds in the case of emergency.

The Finance Unit Head is in charge of managing liquidity, including by investing any surplus on the interbank deposit market. The Risk Management Unit regularly monitors the overall liquidity conditions and reports to the general manager.

Regular risk monitoring requires the monthly check that the limits set by regulations and in the RAF by the board of directors are complied with in respect of short-term and structural liquidity and the ordinary customers' lending/liquidity ratio.

Prometeia's Ermas application feeds the internal risk assessment model, which has differentiated weighing ratios depending on the type of asset, liability and commitment and classifies each item into residual maturity categories (maturity ladder). Any differences and certain synthetic indexes are used to assess the structural liquidity situation over the entire timeframe.

Once a month, the bank checks the regulatory operating liquidity ratio (LCR - liquidity coverage ratio), which measures its ability to cover its forecast net cash outflows over 30 days, and the stable funding ratio which estimates the degree of coverage of medium-term funding through stable forms of funding.

Both ratios were always stable and higher than the regulatory and internal limits, set by the RAF, in 2015. The highly liquid assets, which are the numerator in the LCR ratio, mainly consist of uncommitted government bonds plus other liquidity items and the bank's exposure to the central bank which can be monetised in stress conditions.

In addition, after enactment of the Commission Implementing Regulation (EU) no. 313/2016 about additional liquidity monitoring metrics (ALMM), subsequently transposed by the seventh update to Circular no. 286, the bank supplemented its liquidity risk monitoring procedures to include the ALMM report, prepared once a quarter using the Ermas application. Starting from 31 March 2018, the ALMM reports is prepared in line with the new requirements of the updated Regulation (EU) no. 680/2014.

The Risk Management Unit also performs monthly stress tests and the results are used to define ex-ante limits and ex-post assessments of their adequacy, to plan and undertake transactions to remedy any differences and to define and periodically overview the liquidity risk mitigation systems.

The bank uses a judgement-based approach to estimate cash flows, based on subjective forecasts drawing on past experience and the guidance received from the supervisory authorities. Identification of appropriate risk factors is essential for the suitability of the stress tests. Given the bank's operations and related vulnerabilities, the main liquidity risk factors relate to its capacity to fund itself on the interbank and retail markets, to cover on-demand liabilities, the use of credit facilities granted and the usability of those received, losses due to non-repayment of large positions and the degree of liquidability of its assets.

Based on these factors, the Risk Management Unit uses stress tests that include increases in the haircuts of highly liquid assets and cash outflows of the maturity ladder based on scenarios that it intends to analyse (increase in withdrawals by customers and greater use of current account credit facilities).

The following table shows the data of the internal structural liquidity model, which show the excellent liquidity position at the reporting date, confirmed by the regulatory ratios.

Quantitative disclosure

At the reporting date, the structural liquidity analysis models show substantial financial balance:

€'000

	Assets/ liquidity	**Liabilities/ commitments**	**Difference**	**Progressive difference**	**Balancing ratio**
Highly liquid assets	542,920				
On-demand or revocable	6,998	217,740	332,178	332,178	2.53
Up to 1 month	55,281	24,090	31,191	363,369	2.50
From 1 to 3 months	54,223	27,034	27,189	390,558	2.45
From 3 to 6 months	47,502	14,494	33,008	423,566	2.49
From 6 to 12 months	62,192	11,118	51,074	474,640	2.61
After 1 to 2 years	117,973	7,951	110,022	584,662	2.93
After 2 to 3 years	94,199	13,956	80,243	664,905	3.10
After 3 to 4 years	60,708	53	60,655	725,560	3.29
After 4 to 5 years	60,943	4,824	56,119	781,679	3.43
After 5 to 7 years	69,600	115	69,485	851,164	3.65
After 7 to 10 years	76,568	187	76,381	927,545	3.88
After 10 to 15 years	62,516	349	62,167	989,712	4.07
After 15 to 20 years	19,256	351	18,905	1,008,617	4.13
After 20 years	5,916	336	5,580	1,014,197	4.14
TOTAL	**1,336,795**	**322,598**	**1,014,197**		

At the reporting date, the top 15 customers (excluding banks) accounted for roughly 14.2% of the direct funding (calculated using carrying amounts).

1. Breakdown of financial assets and liabilities by residual contractual maturity

The breakdown of financial assets and liabilities by residual contractual maturity show an overall balance both in relation to deposits/financing and spot and forward exchange rates.

Therefore, currency risks are immaterial thanks to the bank's careful management of foreign currency.

Currency: Euro

	On demand	after 1 to 7 days	after 7 to 15 days	after 15 days to 1 month	after 1 to 3 months	after 3 to 6 months	after 6 months to 1 year	after 2 to 5 years	After 5 years	Open term
Financial assets	**288,960**	**2,974**	**14,648**	**50,159**	**46,182**	**81,185**	**129,992**	**597,171**	**370,600**	**14,050**
A.1 Government bonds	-	-	10,012	24,513	1,326	28,030	52,624	246,044	134,653	-
A.2 Other debt instruments	-	-	-	669	1,874	3,360	2,178	57,822	7,916	-
A.3 OEIC units	28,852	-	-	-	-	-	-	-	-	-
A.4 Financing	260,108	2,974	4,636	24,977	42,982	49,795	75,190	293,305	228,031	14,050
- Banks	*587*	-	-	-	-	-	-	-	-	*14,050*
- Customers	*259,521*	*2,974*	*4,636*	*24,977*	*42,982*	*49,795*	*75,190*	*293,305*	*228,031*	-
Financial liabilities	**1,374,670**	**860**	**1,002**	**6,107**	**27,204**	**14,607**	**11,291**	**26,794**	**1,338**	**-**
B.1 Deposits and current accounts	1,370,844	281	164	903	3,828	4,101	-	-	-	-
- Banks	*1,294*	-	-	-	-	-	-	-	-	-
- Customers	*1,369,550*	*281*	*164*	*903*	*3,828*	*4,101*	-	-	-	-
B.2 Debt instruments	1,674	579	838	5,204	23,376	10,456	11,241	26,584	-	-
B3 Other liabilities	2,152	-	-	-	-	50	50	210	1,338	-
Off-statement of financial position transactions	**4,611**	**8,395**	**513**	**959**	**14,932**	**1,732**	**1,964**	**3,000**	**5,198**	**-**
C.1 Financial derivatives with exchange of capital	-	8,291	513	959	14,932	1,732	1,964	3,000	5,198	-
- *Long positions*	-	*4,776*	*269*	*497*	*6,538*	*866*	*982*	*1,000*	*2,500*	-
- *Short positions*	-	*3,515*	*244*	*462*	*8,394*	*866*	*982*	*2,000*	*2,698*	-
C.2 Financial derivatives without exchange of capital	**234**	-	-	-	-	-	-	-	-	-
- *Long positions*	*82*	-	-	-	-	-	-	-	-	-
- *Short positions*	*152*	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- *Long positions*	-	-	-	-	-	-	-	-	-	-
- *Short positions*	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	**104**	-	-	-	-	-	-	-	-
- *Long positions*	-	*52*	-	-	-	-	-	-	-	-
- *Short positions*	-	*52*	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	4,377	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- *Long positions*	-	-	-	-	-	-	-	-	-	-
- *Short positions*	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- *Long positions*	-	-	-	-	-	-	-	-	-	-
- *Short positions*	-	-	-	-	-	-	-	-	-	-

At the reporting date, the bank had received guarantees of €11,388 thousand which are not shown in the above table as there is no evidence to reasonably suggest that they will be enforced or when they will be used. Guarantees enforced in the last four years are as follows:
2015: four positions for a total of €431 thousand;
2016: two positions for a total of €10 thousand;
2017: six positions for a total of €442 thousand;
2018: four positions for a total of €128 thousand.

Currency: Other

	On demand	after 1 to 7 days	after 7 to 15 days	after 15 days to 1 month	after 1 to 3 months	after 3 to 6 months	after 6 months to 1 year	after 2 to 5 years	After 5 years	Open term
Financial assets	**5,534**	**-**	**-**	**121**	**10**	**60**	**60**	**4,367**	**-**	**-**
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-	60	60	4,367	-	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	5,534	-	-	121	10	-	-	-	-	-
- Banks	*4,862*	-	-	*121*	-	-	-	-	-	-
- Customers	*672*	-	-	-	*10*	-	-	-	-	-
Financial liabilities	**5,019**	**-**	**-**	**79**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	5,018	-	-	79	-	-	-	-	-	-
- Banks	-	-	-	*79*	-	-	-	-	-	-
- Customers	*5,018*	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	1	-	-	-	-	-	-	-	-	-
Off-statement of financial position transactions	**-**	**225**	**513**	**959**	**14,932**	**1,732**	**1,964**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of capital	-	225	513	959	14,932	1,732	1,964	-	-	-
- *Long positions*	-	*87*	*244*	*462*	*8,394*	*866*	*982*	-	-	-
- *Short positions*	-	*138*	*269*	*497*	*6,538*	*866*	*982*	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- *Long positions*	-	-	-	-	-	-	-	-	-	-
- *Short positions*	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- *Long positions*	-	-	-	-	-	-	-	-	-	-
- *Short positions*	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- *Long positions*	-	-	-	-	-	-	-	-	-	-
- *Short positions*	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- *Long positions*	-	-	-	-	-	-	-	-	-	-
- *Short positions*	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- *Long positions*	-	-	-	-	-	-	-	-	-	-
- *Short positions*	-	-	-	-	-	-	-	-	-	-

SECTION 5 - OPERATIONAL RISK

Qualitative disclosure

A. General aspects, management and assessment of operational risk

Operational risk is the risk of losses arising from errors or shortfalls in internal procedures, human resources or systems and external factors. This risk includes losses caused by fraud, human error, business discontinuity, system breakdowns, contractual defaults and natural disasters. It also comprises legal risk but not strategic or reputational risk.

In line with the proportionality principle, the bank uses the basic method (basic indicator approach of 15% of the average total income for the last three years) to measure its capital requirements to cover operational risk.

The Risk Management Unit was defined in the "Operational risk mitigation policy" approved by the board of directors on 24 June 2014. Specifically:

- the board of directors defines the guidelines to control and mitigate operational risk, regularly checking that they are correctly implemented and reflect the bank's operations as well as the transparent and appropriate allocation of duties and responsibilities;
- the managing director defines the operating rules and practices, activities, procedures and most appropriate units to manage the operational risk mitigation process assisted by the competent units and in line with the policies set by the board of directors; they also check their suitability over time in terms of the adequacy and functionality and ensures steps are taken to eliminate any weaknesses or dysfunctions;
- as a control body, the board of statutory auditors monitors the adequacy of the risk management and control system and internal controls;
- the Risk Management Unit designs and updates the methods to measure risks and assists the Organisation Office to assign the first and second level controls when new products, processes or activities are introduced, amendments are made to legislation and regulations, changes take place in the market conditions or other external factors;
- the Internal Audit Unit carries out regular audits of the operational risk management system; it works with the Risk Management Unit to develop, implement and maintain the operational risk management system; it liaises promptly with the board of directors on its findings when they identify effective weaknesses in the controls adopted to mitigate operational risks that would expose the bank to the risk of large losses.

With respect to the operational risk mitigation tools, the bank focused on the transfer of risk through the agreement of insurance policies, suitable for low frequency events with a high financial impact. These policies cover risks of losses from:

- fraud or misconduct;
- damage to third parties caused by errors made during banking operations;
- non-intentional violations of legal, regulatory and by-laws obligations by directors and specific employees;
- third-party fraud;
- damage to property and equipment as a result of natural or criminal events;
- accidents and slight or serious injuries to third parties inside the bank's premises.

Legal risks

Situations that lead to legal risks principally relate to operations covered by the main special regulations such as, specifically, entities' administrative liability (Legislative decree no. 231/2001), occupational safety (Legislative decree no. 81/2008), building site regulations

(Legislative decree no. 494/96), privacy (Legislative decree no. 196/2003), anti-money laundering (Legislative decree no. 231/2007), banking transparency, usury, investment services, etc..

With respect to Legislative decree no. 231/01, the bank implemented the organisational model proposed by the ABI, approved by the Ministry for Justice, and set up a supervisory body to ensure the working and compliance of the models. Since March 2014, the board of statutory auditors has carried out the supervisory body's duties, with the assistance of the pro temporare heads of the bank's control units (Internal Audit, Risk Management, Compliance and AML).

The Compliance Unit is responsible for monitoring legal risks and the bank's compliance with external and internal rules and regulations. It also checks new products/services' compliance in order to identify any potential risks in advance and make the necessary amendments.

The "Compliance Unit's Regulation" regulates the risk of non-compliance and its management as well as the methods adopted by the Unit to carry out its duties. Pursuant to Bank of Italy Circular no. 285/13, the regulation defines the scope of the Unit's duties and specific controls, as well as a special function to perform the compliance tests.

The Anti-money Laundering Unit performs ongoing controls and encourages a culture of compliance with internal and external regulations.

With respect to the correct management and keeping of the centralised computer database, the Unit ensures the network is constantly monitored and kept aware of the issue, assisted by other general management units.

The main legal disputes are described below.

Compound interest disputes

In line with the banking sector's general practice, the bank does not agree with the decision reiterated by the Supreme Court since 1999 which confirms the "negotiating" rather than the "regulatory" nature of the quarterly capitalisation clause for interest expense and, therefore, the illegality of its application to bank current accounts. The bank maintains its opinion in court as well.

The banks' position is supported by numerous merits rulings which emphasise different legal points, which are valid, and that may lead the Supreme Court to rethink its position in the future.

At present, the bank is obliged to make adequate provision for its ongoing disputes with customers about compound interest, based on the calculations made when the dispute arose.

Claw-back claims

The bank assesses individual requests for the return of amounts from the official receivers, estimating the inherent risks. It assesses the cost/benefits ratio only when it deems it more useful and proposes out-of-court settlements to the counterparties, which are often successful and avoid going to court.

Should a legal proceeding be commenced, the bank evaluates its possibility of losing, updates its risk estimates and defends itself suitably in court, also based on its understanding of the counterparty's insolvency. Once such legal proceedings commence, provision is made for the risks related to the amounts deemed re-obtainable based on internal assessments.

Disputes involving securities

Supported by a number of court rulings in its favour, the bank reviews each dispute and only makes adequate provision when it deems that it may effectively have to pay.

Moreover, the number of proceedings commenced against the bank for the acquisition of securities by customers (mostly Argentine and Parmalat bonds) is very modest compared to the number of transactions performed. The bank does not expect it to increase significantly.

Tax regulations

In 2012, the Italian Inland Revenue carried out an inspection of the bank. The extremely comforting results confirmed that the bank's procedures were correctly used thus ensuring compliance with the sector regulations.

PART F
Equity

Section 1 - Equity

Qualitative disclosure

Regulation (EU) no. 575/2013 (CRR) and Directive no. 2013/36/EU (CRD IV) of 26 June 2013 covering banks and investment companies became effective on 1 January 2014. They transposed the supervisory standards for banks defined by the Basel Committee in the European Union.

On 19 December 2013, Bank of Italy published Circular no. 285 “Prudential reporting instructions for banks”, setting out guidance on how to implement CRD IV. The central bank subsequently issued Circular no. 286 “Instructions for preparing prudential reports for banks and investment companies”, which regulates the prudent supervisory reports prepared on a separate and consolidated basis.

Equity management covers all the policies and decisions necessary to ensure that the bank’s own funds are adequate to cover its assets and risks. The bank has to comply with capital adequacy requirements established by the above regulations.

Checks of compliance with the minimum prudential requirements are ongoing and consider possible changes in risks and the Risk Appetite Framework (RAF).

Moreover and in accordance with the ECB’s recommendation of 28 January 2015, compliance with the minimum requirements is also ensured by observance of a pay out policy tied to attainment of the above-mentioned minimum capital requirements.

The directors’ report discloses and comments on the main financial statements indicators which include, in particular, the capitalisation ratios, useful to analyse the bank’s equity on a qualitative basis.

Since 1 January 2014, the Italian banks are required to have a minimum CET1 ratio of 4.5%, a TIER1 ratio of 5.5% (6% from 2015) and a Total Capital Ratio of 8%. These minimum requirements have been supplemented by the following CET1 buffers: capital conservation buffer of 2.5% from 1 January 2014 and, from 2016, Countercyclical buffer in periods of high credit growth and Systematic buffer for major international or local banks. Non-compliance with the sum of these buffers (combined requirement) leads to limits on distributions and the requirement to introduce a capital conservation plan.

On 12 December 2017, the European Parliament and Council issued Regulation (EU) no. 2017/2395, amending Regulation (EU) no. 575/2013 (CRR) as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds, introducing article 473-bis “introduction of IFRS 9” which give banks the possibility of mitigating the impact of FTA over a transitory period of five years (from 2018 to 2022), by using decreasing rates in order to sterilise the effect on CET1. The bank chose to apply the “static approach” to recognise the IFRS 9 FTA at 1 January 2018 adjustments to the IAS 39 impairment losses at 31 December 2017. Banks opting for this transitory treatment from 2018 are nevertheless required to provide disclosures about available capital and the fully loaded CET1 ratio in accordance with the supervisory guidelines.

Quantitative disclosure.

B.1 Equity: breakdown

	31/12/2018	31/12/2017
1 Share capital	**39,241**	**39,241**
2 Share premium	**34,660**	**34,660**
3 Reserves	**67,015**	**74,873**
- income-related	60,885	71,603
a) legal reserve	*18.846*	*18.363*
b) statutory reserve	*55,304*	*53,240*
c) treasury shares	-	-
d) other	*- 13,265*	-
- other reserves	6,130	3,270
4 Equity instruments	**-**	**-**
5 (Treasury shares)	**-**	**-**
6 Valuation reserves	**10,424**	**12,884**
- Equity instruments at fair value through other comprehensive income	- 259	
- Hedges of equity instruments at fair value through other comprehensive income	-	
- Financial assets (other than equity instruments) at fair value through other comprehensive income	- 1,828	706
- Property, equipment and investment property	-	-
- Intangible assets	-	-
- Hedges of investments in foreign operations	-	-
- Cash flow hedges	-	-
- Hedging instruments (non-designated items)	-	
- Exchange gains (losses)	-	-
- Non-current assets held for sale and disposal groups	-	-
- Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	
- Actuarial gains (losses) on defined benefit pension plans	- 2,611	- 2,944
- Portion of valuation reserves of equity-accounted investees	-	-
- Special revaluation laws	15,122	15,122
7 Profit for the year	**1,571**	**4,826**
Total	**152,911**	**166,484**

Item "3. Reserves - d) other" of €13,265 thousand includes the IFRS FTA reserve of €2,860 thousand and the IFRS 9 FTA reserve of -€10,405 thousand. The item "Other reserves" of €6,130 thousand relates to the contribution reserve required by Law no. 218/90

B.2 Fair value reserve: breakdown

	31/12/2018		31/12/2017	
	Fair value gains	Fair value losses	Fair value gains	Fair value losses
1. Debt instruments	238	2,067	1,050	325
2. Equity instruments	142	401	168	-
3. OEIC units	-	-	-	186
4. Financing	-	-	-	-
Total	**380**	**2,468**	**1,218**	**511**

B.3 Fair value reserve: changes

	Debt instruments	Equity instruments	OEIC units	Financing
1. Opening balance	**725**	**168**	**- 186**	**-**
2. Increases	**1,313**	**109**	**278**	**-**
2.1 Fair value gains	171	57	-	-
2.2 Impairment losses for credit risk	124	-	-	-
2.3 Reclassification of fair value losses to profit or loss on sale	-	-	-	-
2.4 Transfers to other equity reserves (equity instruments)	-	-	-	-
2.5 Other increases	1,018	52	278	-
3. Decreases	**3,867**	**536**	**92**	**-**
3.1 Fair value losses	3,084	520	-	-
3.2. Impairment gains for credit risk	-	-	-	-
3.3 Reclassification of fair value gains to profit or loss	693	-	-	-
3.4 Transfers to other equity reserves (equity instruments)	-	-	-	-
3.5 Other decreases	90	16	92	-
4. Closing balance	**- 1,829**	**- 259**	**-**	**-**

B.4 Actuarial reserves: changes

	Fip (pension fund)	Post-employment benefits
1. Opening balance	**- 1,999**	**- 944**
2. Increases	**334**	**1**
2.1 Actuarial gains	460	-
2.2 Change in deferred tax assets	- 126	1
3. Decreases	**-**	**- 2**
3.1 Actuarial losses	-	- 2
3.2 Change in deferred tax liabilities	-	-
4. Total	**- 1,665**	**- 945**

Section 2 – Own funds and ratios

More information is available in the disclosure to the public on own funds and capital adequacy ("Third Pillar").

2.1 Own funds

A. Qualitative disclosure

A. Qualitative disclosure

The reforms of the Basel Committee agreements (Basel 3), aimed at strengthening banks' ability to absorb shocks caused by financial and economic tensions, became part of the EU legislation on 1 January 2014.

The Committee maintained the three-pillar approach at the base of the previous capital agreement (Basel 2), which it integrated and strengthened to improve the amount and quality of intermediaries' capital. It also introduced countercyclical supervisory tools and rules about liquidity risk management and financial leverage containment.

The above EU laws were integrated by the instructions issued by Bank of Italy in Circular no. 285 of 17 December 2013, which grouped the prudential supervisory regulations applicable to banks and Italian banking groups.

The transition to IFRS 9 on 1 January 2018 affected the bank's regulatory capital and prudential ratios.

Specifically:

- The increase in impairment losses reduced CET1 as a result of the decrease in equity:
- the application of phasing-in rules sterilised the effect of the 2018 impairment losses on loans and receivables by 95%;
- The RWA on standard positions reduced thanks to the increase in impairment losses, but they are concurrently affected by the application of the scaling-factor under the phased-in rules.

The impact on the bank's prudential ratios are summarised below:

	IAS 39 figures at 31/12/2017	IAS 39 figures at 1/01/2018	IFRS 9 figures at 1/01/2018	
	with filters	without filters	fully loaded	phased in
A. CET1 before application of prudential filters (excluding IFRS 9 impact)	162,332,382	162,332,382	162,332,382	162,332,382
A1. IFRS 9 impact	-	-	- 10,405,217	- 10,405,217
B. CET1 prudential filters (+/-)	- 352,122	- 352,122	- 352,122	- 352,122
C. CET1 including the elements to be deducted and the effects of the transitional regime (A +/- B)	161,980,260	161,980,260	151,575,043	151,575,043
D. Elements to be deducted from CET1	224,673	179,966	179,966	179,966
E. Transitional regime - Impact on CET1 (+/-)	- 1,812	-	-	9,946,954
F. Total CET1 (C– D +/-E)	161,753,775	161,800,294	151,395,077	161,342,031
G. AT1 including the elements to be deducted and the effects of the transitional regime	44,707	-	-	-
H. Elements to be deducted from AT1	-	-	-	-
I. Transitional regime – Impact on AT1 (+/-)	- 44,707	-	-	-
L. Total AT1 (G - H +/-I)	-	-	-	-
M. T2 including the elements to be deducted and the effects of the transitional regime	-	-	-	-
N. Elements to be deducted from T2	-	-	-	-
O. Transitional regime - Impact on T2 (+/-)	16,764	-	-	-
P. Total T2 (M - N +/- O)	16,764	-	-	-
Q. Total own funds (F + L + P)	161,770,539	161,800,294	151,395,077	161,342,031
C.1 Risk-weighted assets	1,033,693,175	1,033,693,175	1,017,415,563	1,033,287,588
C.2 CET1/Risk-weighted assets (CET1 ratio)	15.65%	15.65%	14.88%	15.61%

The fully loaded impact is -77 bps at 1 January 2018.
The phased-in impact is -4 bps at 1 January 2018.

	IFRS 9 figures at 31/12/2018	
	fully loaded	phased in
A. CET1 before application of prudential filters (excluding IFRS 9 impact)	162,555,669	162,555,669
A1. IFRS 9 impact	- 10,405,217	- 10,405,217
B. CET1 prudential filters (+/-)	- 385,081	- 385,081
C. CET1 including the elements to be deducted and the effects of the transitional regime (A	151,765,371	151,765,371
D. Elements to be deducted from CET1	122,051	122,051
E. Transitional regime - Impact on CET1 (+/-)	-	9,946,954
F. Total CET1 (C– D +/-E)	151,643,320	161,590,274
G. AT1 including the elements to be deducted and the effects of the transitional regime	-	-
H. Elements to be deducted from AT1	-	-
I. Transitional regime – Impact on AT1 (+/-)	-	-
L. Total AT1 (G - H +/-I)	-	-
M. T2 including the elements to be deducted and the effects of the transitional regime	-	-
N. Elements to be deducted from T2	-	-
O. Transitional regime - Impact on T2 (+/-)	-	-
P. Total T2 (M - N +/- O)	-	-
Q. Total own funds (F + L + P)	151,643,320	161,590,274
C.1 Risk-weighted assets	1,060,471,53	1,070,582,613
C.2 CET1/Risk-weighted assets (CET1 ratio)	14.30%	15.09%

The above table shows CET1 at 31 December 2018 in accordance with the transitory phasing-in rules provided for by article 473-bis of the CRR.

Accordingly, the IFRS 9 FTA impact on the CET1 ratio at 31 December 2018 is:

-79 bps (fully loaded approach)

B. Quantitative disclosure

	31/12/2018	31/12/2017
A. Common Equity Tier1 (CET1) before application of prudential filters	152,150	162,332
including CET1 instruments covered by the transitional measures	-	-
B. CET1 prudential filters (+/-)	- 385	- 352
C. CET1 including the elements to be deducted and the effects of the transitional regime (A +/- B)	151,765	161,980
D. Elements to be deducted from CET1	- 122	- 224
E. Transitional regime - Impact on CET1 (+/-)	-	- 2
E.2 Phased-in effect of IFRS 9 (article 473-bis of CRR)	9,947	-
F. Total CET1 (C– D +/-E+/-E.2)	161,590	161,754
G. Additional Tier1 (AT1) including the elements to be deducted and the effects of the transitional regime	-	45
including AT1 instruments covered by the transitional measures	-	-
H. Elements to be deducted from AT1	-	-
I. Transitional regime – Impact on AT1 (+/-)	-	- 45
L. Total AT1 (G - H +/-I)	-	-
M. Tier2 (T2) including the elements to be deducted and the effects of the transitional regime	-	-
including T2 instruments covered by the transitional measures	-	-
N. Elements to be deducted from T2	-	-
O. Transitional regime - Impact on T2 (+/-)	-	17
P. Total T2 (M - N +/- O)	-	17
Q. Total own funds (F + L + P)	161,590	161,771

The phased-in quantitative effect of IFRS 9 FTA is equal to the post-tax difference between the impairment losses recognised upon transition to IFRS 9 (€10,470 thousand) and 95% thereof (€9,947 thousand).

2.2 Capital adequacy

A. Qualitative disclosure

As shown in the table on the bank's risk-weighted assets and capital ratios, it had a CET1 ratio of 15.09%, a Tier1 ratio of 15.09% and a Total capital ratio of 15.09% at 31 December 2018, well above the minimum mandatory requirements of CRR/CRD IV and Bank of Italy's instructions in its Circular no. 285/2013.

The prudential capital requirements of €85.6 million refer to credit, operational and market risks. The lending business requires the largest portion of capital, with credit risk requirements of €61.2 million.

Risk-weighted assets amount to €766 million and there has been a slight increase in such assets for market risks.

B. Quantitative disclosure

	Unweighted amounts		Weighted amounts/requirements	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
A. EXPOSURES	**1,433,813**	**1,465,068**	**765,760**	**847,211**
A.1 Credit and counterparty risk				
1. Standard method	1,433,813	1,465,068	765,760	847,211
2. IRB approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**61,261**	**67,777**
B.2 Risk of adjustments to credit rating			**9**	**13**
B.3 Regulation risk			**-**	**-**
B.4 Market risk			**15,935**	**5,823**
1. Standard method			15,935	5,823
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			**8,441**	**9,083**
1. Basic method			8,441	9,083
2. Standard method			-	-
3. Advanced method			-	-
B.6 Other calculation elements			**-**	**-**
B.7 Total prudential requirements			**85,646**	**82,696**
C. EXPOSURES AND CAPITAL RATIOS				
C.1 Risk-weighted assets			**1,070,575**	**1,033,700**
C.2 CET1/risk-weighted assets (CET1 ratio)			**15.09%**	**15.65%**
C.3 Tier1/risk-weighted assets (Tier1 ratio)			**15.09%**	**15.65%**
C.4 Total own funds/risk-weighted assets (Total capital ratio)			**15.09%**	**15.65%**

PART H
Related party transactions

General information

The bank's board of directors has identified the entities that qualify as related parties pursuant to IAS 24.
They are:

1. Fondazione Cassa di Risparmio di Fermo, which holds 66.67% of the bank's ordinary shares and controls it;
2. Banca Intesa S.p.A., which holds 33.33% of the bank's ordinary shares and has significant influence thereover;
3. directors and managers, due to their strategic powers;
4. the statutory auditors, due to their supervisory powers;
5. spouses and immediate descendants of the parties listed in points 3 and 4;
6. subsidiaries of or companies over which the parties listed in points 3, 4 and 5 have significant influence.

The key managers' remuneration is given with separate mention of the directors' and statutory auditors' fees compared to the remuneration of directors which receive (as provided for by IAS 24.16) short-term benefits, which include direct and indirect costs, and termination benefits. All other forms of remuneration covered by the standard are excluded. Specifically, managers do not have incentive plans tied to profits, further to that provided for in the second level national labour contracts, or pension plans other than those existing for employees. There are no stock option plans.

Transactions undertaken by the bank with its related parties (as defined above) comply with the ruling legislation, are fair and take place at market prices.

The bank has not performed atypical or unusual transactions with related parties during the year, i.e., transactions that do not form part of its normal operations or that would have a significant impact on its financial position, results of operations and cash flows.

1. Key managers' remuneration (in Euros)

	2018
C. Managers	**1,030,752**
Short-term benefits	472,276
Current termination benefits	558,476
Total termination benefits	314,427
A. Directors	**635,379**
Fees	635,379
B. Statutory auditors	**186,109**
Fees	186,109

2. Related party transactions (€'000)

	Assets	Liabilities	Costs	Revenue	Guarantees received
A. Directors	517	1,594	14	43	945
B. Statutory auditors	-	106	-	1	40
C. Managers	-	27	1	5	23
D. Family members	59	262	4	23	167
E. Other related parties	9,633	27,553	130	140	11,090
Total	**10,209**	**29,542**	**149**	**212**	**12,265**

Annexes to the financial statements

The annexes include:

a) – a list of the sections and financial statements captions that have not been presented;

b) – a list of property;

c) – a list of HTCS equity investments;

d) – a list of bond issues existing at the reporting date;

e) – treasury and cash services.

Sections and tables not presented

This list shows the tables in the notes that have not been presented due to the lack of amounts/operating information:

PART B – NOTES TO THE STATEMENT OF FINANCIAL POSITION

ASSETS

SECTION 2 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

2.3 Financial assets at fair value through profit or loss: breakdown by product

2.4 Financial assets at fair value through profit or loss: breakdown by debtor/issuer

SECTION 4 - FINANCIAL ASSETS AT AMORTISED COST

4.3 Finance leases

SECTION 5 - HEDGING DERIVATIVES

5.1 Hedging derivatives: breakdown by type and level

5.2 Hedging derivatives: breakdown by hedged item and type

SECTION 6 - MACRO-HEDGING ADJUSTMENTS TO FINANCIAL ASSETS

6.1 Adjustments to hedged assets: breakdown by hedged portfolio

SECTION 7 - EQUITY INVESTMENTS

7.1 Equity investments: information

7.2 Significant equity investments: carrying amount, fair value and dividends received

7.3 Significant equity investments: financial information

7.4 Significant equity investments : financial information

7.5 Equity investments: changes

7.6 Commitments for interests in jointly controlled entities

7.7 Commitments for investments in associates

7.8 Material restrictions

7.9 Other information

SECTION 8 – PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY

8.2 Investment property: breakdown of assets measured at cost

8.3 Property and equipment: breakdown of revalued assets

8.4 Investment property: breakdown of assets measured at fair value

8.5 Inventories of property, equipment and investment property covered by IAS 2: breakdown

8.7 Investment property: changes

8.8 Inventories of property, equipment and investment property covered by IAS 2: changes

8.9 Commitments to purchase property, equipment and investment property

SECTION 9 - INTANGIBLE ASSETS

9.3 Intangible assets: other disclosures

SECTION 11 - NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE AND DISPOSAL GROUPS

11.1 Non-current assets classified as held for sale and disposal groups: breakdown by type

11.2 Other information

LIABILITIES

SECTION 1 - FINANCIAL LIABILITIES AT AMORTISED COST

1.4 Breakdown of subordinated securities/financial liabilities

1.5 Breakdown of structured financial liabilities

1.6 Finance lease liabilities

SECTION 2 - FINANCIAL LIABILITIES HELD FOR TRADING

2.2 Breakdown of “Financial liabilities held for trading”: subordinated

2.3 Breakdown of “Financial liabilities held for trading”: structured

SECTION 3 - FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

3.1 Financial liabilities designated at fair value: breakdown by product

3.2 Breakdown of “Financial liabilities designated at fair value”: subordinated

SECTION 4 - HEDGING DERIVATIVES

4.1 Hedging derivatives: breakdown by type and level

4.2 Hedging derivatives: breakdown by hedged item and type

SECTION 5 - MACRO-HEDGING ADJUSTMENTS TO FINANCIAL LIABILITIES

5.1 Macro-hedging adjustments to hedged financial liabilities: breakdown

SECTION 7 - LIABILITIES ASSOCIATED WITH DISPOSAL GROUPS

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES

10.4 Provisions for other commitments and other guarantees given

10.6 Provisions for risks and charges - other provisions

SECTION 11 - REDEEMABLE SHARES

11.1 Redeemable shares: breakdown

SECTION 12 - EQUITY

12.3 Equity - Other information

12.5 Equity instruments: breakdown and changes

12.6 Other information

OTHER INFORMATION

4. Operating leases

6. Offset financial assets or assets subject to master netting agreements or similar agreements

7. Offset financial liabilities or liabilities subject to master netting agreements or similar agreements

8. Securities lending transactions

9. Jointly controlled operations

PART C - NOTES TO THE INCOME STATEMENT

SECTION 1 – INTEREST

1.2 Interest and similar income: other information

1.2.2 Interest income on finance leases

1.4 Interest and similar expense: other information

1.4.2 Interest income on finance leases

1.5 Differences on hedging transactions

SECTION 5 - NET HEDGING INCOME (EXPENSE)

5.1 Net hedging income (expense): breakdown

SECTION 6 – GAIN (LOSS) FROM SALES/REPURCHASES

6.1 Gain (loss) from sales/repurchases: breakdown

SECTION 7 - NET GAIN (LOSS) ON OTHER FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

7.1 Net gain (loss) on other financial assets and liabilities at fair value through profit or loss: breakdown of other financial assets designated at fair value

SECTION 11 - NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES

11.2 Net accruals to provisions for other commitments and other guarantees given: breakdown

SECTION 15 - GAINS (LOSSES) ON EQUITY INVESTMENTS

15.1 Gains (losses) on equity investments: breakdown

SECTION 16 - FAIR VALUE GAINS (LOSSES) ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS

16.1 Net fair value (or deemed cost) or estimated realisation value gains (losses) on property, equipment and investment property and intangible assets: breakdown

SECTION 17 – IMPAIRMENT LOSSES ON GOODWILL

17.1 Impairment losses on goodwill: breakdown

SECTION 20 - POST-TAX PROFIT (LOSS) FROM DISCONTINUED OPERATIONS

20.1 Post-tax profit (loss) from discontinued operations: breakdown

20.2 Breakdown of income taxes relating to discontinued operations

SECTION 21 - OTHER INFORMATION

SECTION 22 - EARNINGS PER SHARE

22.2 Other information

PART E - RISKS AND RELATED HEDGING POLICIES

SECTION 1 - CREDIT RISK

Quantitative disclosure

A. CREDIT QUALITY

A.3 BREAKDOWN OF GUARANTEED EXPOSURES BY TYPE OF GUARANTEE

A.3.1 On- and off-statement of financial position guaranteed exposures with banks

A.4 Financial and non-financial assets obtained through enforcement of guarantees received

C. SECURITISATIONS

Quantitative disclosure

C.1 Exposures of the main "own" securitisations broken down by securitised asset and type of exposure

C.2 Exposures of the main "third party" securitisations broken down by securitised asset and type of exposure

C.3 Securitisation vehicles

C.4 Unconsolidated securitisation vehicles

C.5 Servicer - own securitisations: collection of securitised loans and redemption of securities issued by the securitisation vehicle

D. DISCLOSURE ON UNCONSOLIDATED STRUCTURED ENTITIES (OTHER THAN SECURITISATION SPVs)

Qualitative disclosure

Quantitative disclosure

E. TRANSFERS

A. Financial assets transferred and not fully derecognised

Qualitative disclosure

Quantitative disclosure

E.1 Financial assets transferred and not derecognised and associated financial liabilities: carrying amount

E.2 Financial assets transferred and not fully derecognised and associated financial liabilities: carrying amount

E.3 Transfers with liabilities that can solely be covered by the assets transferred and not fully derecognised: fair value

B. Financial assets transferred and fully derecognised with recognition of continuing involvement

Qualitative disclosure

Quantitative disclosure

C.4 Covered bond transactions

F. CREDIT RISK MEASUREMENT MODELS

SECTION 3 – DERIVATIVES AND HEDGING POLICIES

3.1 - Trading derivatives

B. Credit derivatives

B.1 Trading credit derivatives: reporting date notional amounts

B.2 Trading credit derivatives: gross positive and negative fair value - breakdown by product

B.3 OTC trading credit derivatives - notional amounts, gross positive and negative fair value by counterparty

B.4 Residual life of OTC trading credit derivatives: notional amounts

B.5 Credit derivatives associated with fair value option: changes

3.2 – Hedge accounting

Qualitative disclosure

A. Fair value hedges

B. Cash flow hedges

C. Hedges of investments in foreign operations

D. Hedging instruments

E. Hedged items

Quantitative disclosure

A. Hedging financial derivatives

A.1 Hedging financial derivatives: reporting date notional amounts

A.2 Hedging financial derivatives: gross positive and negative fair value - breakdown by product

A.3 OTC hedging financial derivatives - notional amounts, gross positive and negative fair value by counterparty

A.4 Residual life of OTC hedging financial derivatives: notional amounts

B. Hedging credit derivatives

B.1 Hedging credit derivatives: reporting date notional amounts

B.2 Hedging credit derivatives: gross positive and negative fair value - breakdown by product

B.3 OTC hedging credit derivatives - notional amounts, gross positive and negative fair value by counterparty

B.4 Residual life of OTC hedging credit derivatives: notional amounts

C. Non-derivative hedges

C.1 Non-derivative hedges: breakdown by portfolio and type of hedge

D. Hedged items

D.1 Fair value hedges

D.2 Cash flow hedges and hedges of investments in foreign operations

E. Hedging gains or losses recognised in equity

E.1 Reconciliation of equity items

SECTION 5 - OPERATIONAL RISK

Quantitative disclosure

PART G - BUSINESS COMBINATIONS

SECTION 1 - TRANSACTIONS CARRIED OUT DURING THE YEAR

SECTION 2 - TRANSACTIONS CARRIED OUT AFTER THE REPORTING DATE

SECTION 3 – RETROSPECTIVE ADJUSTMENTS

PART I - SHARE-BASED PAYMENTS

Qualitative disclosure

1. Share-based payment plans

Quantitative disclosure

1. Changes
2. Other information

Part L – SEGMENT REPORTING

Property

	REVALUATION			GROSS AMOUNT	including: land	including: buildings	CARRYING AMOUNT OF BUILDINGS
	as per Law no. 72/83	as per Law no. 218/90	as per Law no. 413/91				
Fermo Via Don E. Ricci 1	1,011,739.07	2,017,280.65	401,803.47	3,498,627.99	349,862.81	3,148,765.18	413,663.40
Fermo Campoleggio Corso Marconi 19	103,291.38	274,755.07	42,865.92	432,750.15	43,275.02	389,475.13	54,313.14
Fermo Campoleggio - Corso Marconi 19 extension	-	-	1,549.37	19,039.38	1,903.94	17,135.44	894.63
Carassai Piazza Leopardi 8/9	25,822.84	24,273.47	11,362.05	66,563.76	8,653.29	57,910.47	5,890.55
Cupramarittima Via E. Ruzzi 9	-	211,230.87	47,514.03	436,910.79	-	436,910.79	49,161.49
Grottazzolina Via Verdi 5	51,645.69	32,020.33	25,306.39	124,894.81	-	124,894.81	10,892.10
Montegranaro P.zza Mazzini	175,595.35	47,867.29	41,501.96	200,509.38	-	200,509.38	16,980.11
Monterubbiano Piazza Calzecchi Onesti 9	46,481.12	63,007.74	18,592.45	131,741.32	13,174.13	118,567.19	13,953.59
Monte San Pietrangeli Via S. Antonio 6	-	64,040.66	4,131.66	140,636.48	-	140,636.48	26,721.00
Montottone Piazza Leopardi 8	37,184.90	29,954.50	14,977.25	85,204.37	10,224.52	74,979.85	7,512.54
Monturano Via Gramsci 32/A	232,405.60	583,079.84	129,114.22	1,058,503.84	158,775.58	899,728.26	115,019.28
Petritoli Via Mannocchi Tornabuoni 25	28,405.13	88,314.13	12,911.42	135,285.44	13,528.54	121,756.90	17,309.60
Falerone fraz. Piane di Falerone Viale della Resistenza 95	51,645.69	205,549.85	26,339.30	301,981.85	75,495.47	226,486.38	33,044.26
Porto S. Elpidio Via S. Giovanni Bosco 10	180,759.91	203,484.02	76,952.08	487,019.99	97,404.00	389,615.99	42,626.25
Porto S. Elpidio - Faleriense Via Marina 1	180,759.91	167,848.49	81,600.19	499,256.17	70,224.58	429,031.59	64,805.39
Porto S. Giorgio - head office Via Annibal Caro	-	2,471,246.26	73,853.34	5,703,013.66	1,140,602.74	4,562,410.92	726,065.56
S. Elpidio a Mare Via Rome	129,114.22	523,170.84	65,590.03	764,747.17	-	764,747.17	111,864.49
S.Elpidio a Mare Via Rome 31 extension	-	-	34,602.61	127,207.59	-	127,207.59	6,574.47
S.Elpidio a Mare Via Rome 31 extension	-	-	33,569.70	139,393.78	-	139,393.78	6,378.26
Fermo P.zza Mascagni 4	154,937.07	211,747.33	66,106.48	455,484.95	-	455,484.95	52,792.30
Fermo - P.zza Mascagni 1984 extension	-	-	5,164.57	25,169.18	-	25,169.18	981.22
Fermo Via Ognissanti	-	11,878.51	4,648.11	29,035.21	3,484.22	25,550.99	2,763.28
Fermo Corso Cavour 104	-	1,066,999.95	217,428.35	2,647,791.16	264,779.13	2,383,012.03	236,356.30
S.Elpidio a mare - Casette d'Ete C. Garibaldi, 3	-	203,484.02	83,149.56	678,504.31	33,925.22	644,579.09	51,737.43
Fermo V.le Trento 182	-	3,083,247.69	601,672.29	7,454,739.36	1,490,947.88	5,963,791.48	599,734.25
S.Benedetto del Tronto Via Liberazione 190	-	820,650.01	211,230.87	2,356,260.19	164,938.21	2,191,321.98	194,650.06

	REVALUATION			GROSS AMOUNT	including: land	including: buildings	CARRYING AMOUNT OF BUILDINGS
	as per Law no. 72/83	as per Law no. 218/90	as per Law no. 413/91				
Civitanova Marche Via Cairoli 22	-	388,375.59	30,987.41	804,859.80	-	804,859.80	106,663.82
Porto S. Elpidio - Faleriense Piazza Giovanni XXIII 14	232,405.60	108,455.95	-	419,019.11	-	419,019.11	276,716.67
Fermo V.le Ciccolungo area	-	-	-	0.01	-	0.01	-
Grottazzolina Via Fonterotta	-	-	-	476,932.12	-	476,932.12	476,932.12
Pescara Piazza Duca d'Aosta 30	-	-	-	1,908,478.18	-	1,908,478.18	419,865.11
Montegranaro Via Gramsci	-	-	-	465,720.02	-	465,720.02	193,273.82
Recanati Santacroce 34/E	-	-	-	301,285.46	60,257.09	241,028.37	100,026.81
Rome Via Puglie 15/21	-	-	-	2,932,724.03	-	2,932,724.03	1,656,989.09
Colli del Tronto Via Matteotti 2	-	-	-	342,295.20	-	342,295.20	195,184.49
Porto S. Elpidio - Via S.Giovanni Bosco 10 renovation	-	-	-	497,084.46	99,416.89	397,667.57	224,682.14
Fermo - Loc. Molini Girola	-	-	-	30,250.00	6,050.00	24,200.00	15,788.08
Falerone fraz. Piane - Viale della Resistenza 95 renovation	-	-	-	111,836.61	-	111,836.61	78,274.43
Montegiorgio - Loc. Piane Via A. Einstein 8	-	-	-	869,227.16	116,000.00	753,227.16	616,817.75
Fermo Via G. da Palestrina 13/19	-	-	-	418,945.49	-	418,945.49	342,152.81
Fermo Piazza del Popolo 38	-	-	-	16,400.00	-	16,400.00	13,710.40
San Benedetto del Tronto Via Francesco Fiscaletti	-	-	-	918,260.22	-	918,260.22	780,337.52
Recanati Via Villa Musone snc	-	-	-	306,356.00	-	306,356.00	267,969.59
TOTAL	**2,642,193.48**	**12,901,963.06**	**2,364,525.08**	**38,819,946.15**	**4,222,923.26**	**34,597,022.89**	**8,628,069.60**

List of HTCS equity investments

	31/12/2017	Changes in 2018			31/12/2018	including: re-measurement of contribution value	including: fair value
		(+) Purchases	(-) Sales/ reimbursements	(+/-) Fair value			
SEDA -Soc. Elaborazione Dati S.p.A.	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BANK OF ITALY	7,500,000.00	0.00	0.00	0.00	7,500,000.00	0.00	0.00
Intesa Sanpaolo S.p.A.	111,651.40	0.00	0.00	-33,387.00	78,264.40	0.00	-17,861.18
SIA S.p.A.	161,770.00	0.00	0.00	0.00	161,770.00	0.00	139,703.54
Bancomat S.p.A.	1,144.00	0.00	0.00	0.00	1,144.00	0.00	0.00
Alipicene S.r.l.	2,582.00	0.00	0.00	0.00	2,582.00	0.00	0.00
S.W.I.F.T. - Brussels	2,529.08	0.00	0.00	0.00	2,529.08	0.00	0.00
Fermano Leader s.c.a.r.l	3,000.00	0.00	0.00	0.00	3,000.00	0.00	0.00
CSE Consorzio Servizi Bancari S.r.l.	5,156,000.00	1,250,000.00	0.00	-156,000.00	6,250,000.00	0.00	-80,000.00
CARICESE	20,000.00	0.00	0.00	0.00	20,000.00	0.00	0.00
ENEL AOR RAGG.	0.00	995,525.22	0.00	56,892.38	1,052,417.60	0.00	56,892.38
CONFIDICOOP MARCHE	100,000.00	0.00	0.00	0.00	100,000.00	0.00	0.00
Voluntary scheme - Interbank Deposit Protection Fund (C.R.CESENA)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Voluntary scheme - Interbank Deposit Protection Fund	51,026.19	0.00	0.00	-14,659.05	36,367.14	0.00	-14,659.05
Italian Dream Factory S.r.l.	315,793.00	0.00	0.00	-315,793.00	0.00	0.00	-315,793.00
TOTAL AS PER ACCOUNTING RECORDS	**13,425,495.6**	**2,245,525.22**	**0.00**	**-462,946.67**	**15,208,074.22**	**0.00**	**-231,717.31**

List of bonds issued at the reporting date

Bond ISIN number	Issue date	Maturity date	Euros/1000
Total			0

During the first half of 2018, bond issues of €40,312 thousand matured while no new issues were made.

At the reporting date, there were no bonds outstanding issued by the bank.

The bank has not issued bonus shares, bonds convertible into shares, subordinated bonds or securities or similar instruments.

Furthermore, the bank has not issued own bank drafts as it has entered into specific agreements for the issue of third party bank drafts.

Treasury and cash services provided

Treasury and cash services provided

Treasury services	
Body	**Municipality**
Municipality of Altidona	Altidona (FM)
Municipality of Campofilone	Campofilone (FM)
Municipality of Carassai	Carassai (AP)
Municipality of Fermo	FERMO
Municipality of Grottazzolina	Grottazzolina (FM)
Municipality of Lapedona	Lapedona (FM)
Municipality of M. Vidon Combatte	Monte Vidon Combatte (FM)
Municipality of M.S. Pietrangeli	Monte S. Pietrangeli (FM)
Municipality of Monsampietro Morico	Monsampietro Morico (FM)
Municipality of Monte Giberto	Monte Giberto (FM)
Municipality of Montegiorgio	Montegirgio (FM)
Municipality of Montefiore dell'Aso	Montefiore dell'Aso (AP)
Municipality of Monteleone	Monteleone di Fermo (FM)
Municipality of Monterubbiano	Monterubbiano (FM)
Municipality of Montottone	Montottone (FM)
Municipality of Moresco	Moresco (FM)
Municipality of Pedaso	Pedaso (FM)
Municipality of Petritoli	Petritoli (FM)
Municipality of Ponzano di Fermo	Ponzano di Fermo (FM)
Municipality of Porto San Giorgio	Porto San Giorgio (FM)
Municipality of Rapagnano	Rapagnano (FM)
Municipality of Ripe San Ginesio	Ripe San Ginesio (MC)
Municipality of Sant'Elpidio a Mare	Sant'Elpidio a Mare (FM)
Municipality of Servigliano	Servigliano (FM)
Municipality of Torre San Patrizio	Torre S. Patrizio (FM)
Province of Fermo	FERMO

Cash services	
Body	**Municipality**
Casa Riposo Sassatelli	FERMO
Camera di Commercio I.A.A. - AZ. FERMO PROMUOVE	FERMO
Cons.Intercom.Servizio Smaltimento Rifiuti Solidi Urbani T.S. Patrizio	Torre San Patrizio (FM)
Conservatorio Musicale "G.B. Pergolesi"	FERMO
Istituto Tecnico Industriale Statale "G. Montani"	FERMO
Liceo Ginnasio "Annibal Caro"	FERMO
Fondazione "G. Didari"	Francavilla D'Ete (FM)
Fondazione Ric. Montegranaro	Montegranaro (FM)
Ospizio Marino	FERMO
Pia Casa "F. Falconi"	Sant'Elpidio a Mare (FM)
Ordine Dottori Commercialisti ed Esperti Contabili	FERMO

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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
Cassa di Risparmio di Fermo S.p.A.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Cassa di Risparmio di Fermo S.p.A. (the "bank"), which comprise the statement of financial position as at 31 December 2018, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Cassa di Risparmio di Fermo S.p.A. as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 43 of Legislative decree no. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the financial statements*" section of our report. We are independent of the bank in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

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Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Transition to IFRS 9

Notes to the financial statements "Part A - Accounting policies": paragraphs A.2.1 "Financial assets at fair value through profit or loss", A.2.2 "Financial assets at fair value through other comprehensive income", A.2.3 "Financial assets at amortised cost" and A.2.15.4 "Effects of FTA of IFRS 9 and IFRS 15"

Key audit matter	Audit procedures addressing the key audit matter
The new IFRS 9 "Financial instruments", whose application became mandatory in 2018, modified the classification, measurement, impairment and hedge accounting rules for financial instruments compared to those provided for by IAS 39, which was applicable up to 31 December 2017. As a first-time adopter of the new standard, the bank restated its opening balances at 1 January 2018. Specifically, the directors: — reclassified its financial assets into the new captions "Financial assets at fair value through profit or loss", "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost" and its financial liabilities to the new caption "Financial liabilities at amortised cost". — restated its financial assets and liabilities in accordance with the measurement requirements of IFRS 9; — retested its financial assets for impairment, in particular loans and receivables with customers, using the rules of the new standard; — recognised the post-tax FTA effects under equity reserves; — disclosed the main changes introduced by the new standard, the transition process the bank followed, its key elections and the effects of FTA of IFRS 9.	Our audit procedures included: — gaining an understanding of the bank's IFRS 9 transition processes and related IT environment in relation to the classification, measurement and impairment of financial instruments; — checking, on a sample basis, that financial assets had been correctly classified, by considering the bank's transition procedures, obtaining evidence of the analyses carried out and assessing the consistency of the analyses carried out with the results obtained; — sample-based analysis of the application of the measurement model (amortised cost or fair value) to financial assets according to the classification adopted by the bank; — assessing the consistency of the bank's staging rules for financial assets with the requirements of the new standard and checking, on a sample basis, that such rules had been applied correctly; — analysing the main estimates and methods applied for the new impairment models, including checking the reasonableness of the main assumptions and variables included therein; we carried out these procedures with the assistance of experts of the KPMG network;

The application of the new standard led to a reduction of €10.4 million in equity at 1 January 2018, net of the related tax. It also required significant changes to the bank's processes, organisation and measurement of financial assets, which accounted for 87.8% of the bank's total assets at 1 January 2018. The IFRS 9 transition process required extremely complex estimates and factors of a subjective and uncertain nature. For the above reasons, we believe that the transition to IFRS 9 "Financial instruments" is a key audit matter.	— assessing the appropriateness of the disclosures on transition to the new standard in the financial statements.

Classification and measurement of loans and receivables with customers

Notes to the financial statements: "Part A - Accounting policies, "A.1 – General part, section 4 "Other aspects - Use of estimates and assumptions to prepare the financial statements"; paragraph A.2.3 "Financial assets at amortised cost - Loans and receivables with customers and banks"; "Part B - Notes to the statement of financial position – Assets", section 4 "Financial assets at amortised cost – Caption 40"; "Part C - Notes to the income statement", section 8 "Net impairment losses for credit risk - Caption 130"; "Part E - Risks and related hedging policies", section 1 "Credit risk"

Key audit matter	**Audit procedures addressing the key audit matter**
The lending business is one of the bank's core activities. Loans and receivables with customers amount to €1,188.9 million at 31 December 2018 accounting for 69.9% of total assets. Net impairment losses recognised in profit or loss during the year totalled €7.5 million. For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement. To this end, they consider both internal information about the performance of exposures and external information about the reference sector and borrowers' overall exposure to banks. Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the existence of any indicators of impairment, estimates about the borrowers' ability to	Our audit procedures included: — gaining an understanding of the parent's processes and IT environment in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses; — analysing the criteria used to classify loans and receivables with customers in the official categories and sample-based test of their classification, including check of the staging required by IFRS 9; — analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main

repay, an assessment of any guarantees and the impact of macroeconomic variables and risks of the sectors in which the bank's customers operate. For the above reasons, we believe that the classification and measurement of loans and receivables with customers are a key audit matter.	assumptions and variables included therein; — selecting a sample of exposures tested collectively, checking the application of the measurement models applied and checking that the impairment rates applied complied with those provided for in such models; — selecting a sample of exposures tested individually and checking the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received; — analysing the significant changes in the official categories and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant internal departments; — sending written requests for information to the legal advisors assisting the bank with credit recovery and checking the consistency of the information obtained with the elements considered by the directors to classify and measure loans and receivables with customers; — assessing the appropriateness of the disclosures about loans and receivables with customers.

Responsibilities of the bank's directors and board of statutory auditors ("Collegio Sindacale") for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the bank's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the bank or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the bank's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the bank to cease to continue as a going concern;

— evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 26 April 2010, the bank's shareholders appointed us to perform the statutory audit of its financial statements as at and for the years ending from 31 December 2010 to 31 December 2018.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the bank in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10

The bank's directors are responsible for the preparation of a directors' report at 31 December 2018 and for the consistency of such report with the related financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the bank's financial statements at 31 December 2018 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the bank's financial statements at 31 December 2018 and has been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Ancona, 5 April 2019

KPMG S.p.A.

(signed on the original)

Davide Stabellini
Director of Audit